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BACKGROUND MATERIAL ON POVERTY

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PREFACE

This document has been prepared for the use of the Committee on Ways and Means by its staff, in connection with a hearing on poverty rate increase, to be held by the Subcommittee on Oversight and the Subcommittee on Public Assistance and Unemployment Compensation. This material has been assembled in a limited amount of time (less than a month) in order that it be available to the members. The document was prepared at the request of Congressman Charles B. Rangel, Chairman, Subcommittee on Oversight, and Congressman Harold Ford, Chairman, Subcommittee on Public Assistance and Unemployment Compensation of the Committee on Ways and Means.

The Chairmen requested information which would:

(1) Describe the official poverty line and various other measures,

(2) Compile historical tables and graphs illustrating poverty rates in the population and selected population subgroups under the various definitions of poverty,

(3) Document the major 1981 budget reductions and the erosion in real terms of public assistance benefits, and

(4) Outline briefly various policy options to reduce poverty.

In addition, at the request of the Chairman, the staff of the Joint Committee on Taxation has prepared information concerning the Federal tax treatment of those in poverty. This material appears as section 10.

The subcommittees wish to express their appreciation to the Congressional Research Service for preparing sections 1–8, and for contributing background materials and assistance in the preparation of section 9. The subcommittees appreciate the work of the staff of the Joint Committee on Taxation in preparing section 10.

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SUMMARY

After a decade of steady decline followed by a decade of relative stability, the share of people in poverty in the United States began a sharp rise in 1978 which continued through 1982 and now equals 15 percent of the population—the highest level since 1965. In 1982 the overall poverty rate stands 32 percent higher than when it began to rise. The number of individuals below poverty has increased by 9.9 million over the last 4 years.

The poverty rate at a given time reflects economic opportunities, Federal and State government income transfer programs, and demographic conditions. Complex interactions among these factors account for the progress against poverty in 1959–1969, the plateau in 1970–1978, and the ground lost in 1979–1982.

This report analyzes trends in poverty during the past 24 years. It examines reasons for changes in the rate of poverty and discusses demographic characteristacs of the poverty population. Further, the report analyzes the measuring technique used to calculate the number of poor Americans. The measure itself is controversial. Some critics claim that it does not accurately portray the nature or extent of the poverty problem.

How Poverty Is Measured

When the Federal Government began measuring poverty in the early 1960's, the continued existence of poor people in a time of the "Affluent Society" seemed anomolous. Official concern soon translated into efforts to measure the size of the poverty population, and the search began for programmatic ways to alleviate poverty. The first rough estimates of the incidence of poverty were based on survey data indicating that families generally spent about one-third of their income for food. A poverty level income was then calculated by using as a yardstick the amount of money necessary to purchase the lowest cost "nutritionally adequate" diet calculated by the Department of Agriculture (roughly equivalent to the current Thrifty Food Plan). This price tag was multiplied by 3 to produce a poverty threshold. Thus, this procedure assumed that if a family did not have enough income to buy the lowest nutritionally adequate diet, and twice that amount for other goods and services, it was "poor." Appropriate adjustments were made for the size of the family, sex of family head, and for whether the family lived on the farm or not. Farm families were assumed not to need as much cash income because more of their needs could be met through farm products—particularly food. (Differentials for sex of family head and for farm-nonfarm residence were abolished in 1981.) These first estimates found that 39.5 million persons—22 percent of the population—were poor in 1959.

Since the earliest estimates were made individuals, agencies, foundations, and commissions have studied poverty, and some have focused on how it is defined and measured. The research supporting these activities has illuminated the issues surrounding poverty and its measurement, which have not changed since the 1959 estimates. Data collection and analysis seem more sophisticated now, but the basic concepts, problems associated with them, and measurements remain the same. Policy officials made one change to the basic approach for calculating the level of poverty in 1969. Current poverty levels are established each year simply by increasing the previous year's level by the change in the Consumer Price Index (CPI) rather than multiplying the cost of the Thrifty Food Plan by 3.

Issues in the Concept of Poverty and Its Measurement

Even though the basic concepts underlying the official poverty level have not changed since their development almost two decades ago, they continue to be debated. Controversy has centered around two features of the problem: (1) whether to define poverty in relative or absolute terms, and (2) what definition of income to use. Other issues in the measurement of poverty are simply extensions or derivatives of these basic two.

Experts in the study of poverty identify two ways to think about the problem: Poverty can be viewed as relative or absolute. In general, an absolute standard measures basic needs, but a relative one measures income distribution.

Relative standards of poverty are directly linked to the distribution of income in the society. Under this concept, poverty is not a condition of absolute want. Rather, it is marked by "having a lot less than most people have" even if that means having more than what is considered to be "enough to get by." Using a relative poverty standard, economic growth alone would not eliminate or necessarily reduce poverty. Under a relative standard, poverty would be reduced only if income became distributed more equally.

The Federal Government measures poverty as an "absolute" level, which changes only with inflation. Under this concept, the number of poor would be expected to decline during times of rapid economic growth, and to increase during times of slow or negative economic growth (such as characterized much of the decade of the 1970's). The absolute concept of poverty makes possible the elimination, or at least the reduction, of poverty without requiring income redistribution. An absolute measure also enables analysts to calculate the "poverty gap", defined as the total amount of additional income that the poor would require to bring them all up to the poverty line. Policy officials often use the effect on poverty as a criterion for assessing their policies; the extent to which they "target" benefits to the poor becomes an important criterion for judging their effectiveness.

Determining the appropriate concept of income causes controversy in a number of public policy settings. Whether it is for purposes of taxation, eligibility for welfare benefits, or establishing a poverty yardstick, definitions of countable income require high levels of

analysis coupled with compromise, and in the end remain controversial.

The current policy definition counts cash income from most sources, including earnings, return on property, and government transfer income (social security, welfare, etc.). It does not include in-kind income (noncash employment compensation such as employer-paid health insurance, life insurance, accruals for pensions coverage; and government transfer programs such as food stamps, medical insurance, and housing assistance or tax "expenditures" such as tax deductibility of mortgage interest. Direct government in-kind transfers go mainly to low-income persons. Not counting them diminishes the ability to assess the effect of income transfer policies on the poor, particularly since in-kind transfers have been the fastest growing programs targeted at the poor during the past decade. In addition to conceptual questions regarding the proper definition of income, practical issues of how to value in-kind benefits have plagued efforts to count them.

The exclusion of in-kind benefits has been the most frequently criticized feature of how income is counted for poverty purposes. However, other features, while not so well known, may also affect the poverty debate as much. For example, income for establishing the poverty threshold is before-tax income, even though the original poverty concept was based on after-tax income. If the official measure were still after tax, countable income would be less and a larger number of earners and their families would fall below the threshold. Furthermore, income is counted as an annual total and is not sensitive to periods of time within a year when a family had no or little income. If a shorter time were used for measuring poverty, the number of people poor for some period of time during the year would be greater than the annual measurement. On the other hand, the official poverty counts may be too high because of known underreporting of income in census surveys and because the value of assets, even liquid financial resources, is not counted.

All in all, many such anomalies subject the current poverty measure to criticism. However, the present methodology has the advantage of being consistent over the entire 24-year period, permitting assessment of trends and movements in the number and percent of the poor. Furthermore, a criticism-free measure probably cannot be designed.

Poverty Rates

The proportion of people in poverty declined steadily during the 1960's. From a high of 22 percent of the population in 1959, the first year of measurement, the rate dropped each year until 1970. With a few bumps up and down, including the lowest recorded level of 11.1 percent in 1973, the rate essentially stablized during most of the 1970's—never dropping below 11 percent and never rising above 12.5 percent. Then, starting in 1979, the rate turned up, increasing each year, until it reached 15 percent in 1982 (the latest year for which data are available), an increase of 32 percent in just 4 years. These trends paint an important picture of progress in the Nation's efforts to deal with poverty. But the overall rates tell only part of the story. They disguise some important issues.

Within these overall averages, the rates for particular groups of people and types of living arrangements vary substantially from each other.

1. Poverty higher for blacks.—The poverty rate of blacks stubbornly stayed two to three times higher than the rate for whites. During the 23-year period for which data are available, the poverty rate for balcks declined by 55.1 percent to 30.3 percent in 1982, still very high. In 1982, nearly one-third of all blacks in the Nation had income below the poverty level. This figure is influenced, however, by another characteristic of the poverty population: The group with the highest poverty rate of all continues to be female-headed families. Since female-headed families are disproportionately black families, this factor increases the incidence of poverty among blacks. But even taking into account the relatively high proportion of black female-headed families, the rate for blacks is almost double that of whites: 18.0 percent, compared to 9.3 percent.

2. The number of poor elderly continued to decline.—The most heralded success in reducing the rate of poverty occurred among the elderly. Starting at a rate of 35.2 percent in 1959, over two times that for other adults, the rate had dropped by 1982 to 14.6 percent, just slightly lower than the overall rate—which by this time was on the rise. Although the overall poverty rate began rising in 1979 and by 1982 had risen by 32 percent, the poverty rate for the elderly held steady at a rate near its low point. The social security program grew rapidly during the entire 1970's and into the 1980's. Coupled with the rapid expansion of private pensions after World War II, and the enactment of the Supplemental Security Income (SSI) program, which provides, by itself, a level of income almost at the poverty level for elderly couples, the overall poverty rate for the elderly continued to decline even while poverty for other groups was on the rise. Even so, the rate of poverty for the very old, for the elderly living alone and for the black elderly remains high.

3. Female-headed families in poverty.—The poverty rate for female-headed families has always been extremely high compared to other family types. The recent growth in the number of female-headed families has exacerbated the problem of the large number of children below poverty. The number of individuals (adults and children) in female-headed families in 1982 was approximately 45.1 million—19.7 percent of all individuals. At the beginning of the survey, female-headed families constituted a substantially smaller share at 11.8 percent. Thus, the number of poor female-headed families and children in these families has grown, not only because the poverty rate is high for these families, but also because the number of such families has grown. This explains the rise in the number of poor children. The rate of poverty for children grew from its low point of 13.8 percent in 1969 to 21.3 percent in 1982.

Causes for Levels and Movements in Poverty

As is true for all complicated social phenomena, the causes of poverty levels and trends are not easily explained. In beginning such an analysis, one obvious place to start is to examine the main

sources of income to the poor. Trends in these income sources over the past two decades help explain changes in poverty.

Poverty discussions leave the impression that the poverty population consists of the same people from year to year. However, reported year-to-year variations hide substantial numbers of the overall population, moving into and out of poverty over a period of years. Studies of this question have indicated that over a 10-year period between 1969 and 1978, 25 percent of the population was poor in at least one of those years. About 1 percent were poor during the entire period, and about 5 percent were reported poor in 5 out of 7 years. These studies identify the principal causes of movements into and out of poverty as changes in family composition (divorce or marriage) or the entrance of additional family members into the work force.

In addition, during the period under study, effects of the economy on the earnings of the poor, and government transfer programs, had a marked effect on the number of the poor.

An examination of the main income sources of the poor also helps to explain changes in poverty. Sources of income to the poor consist of earnings and government transfer payments. Beyond these changes in income sources, changes in demographics and living arrangements also figure heavily in explaining poverty trends.

1. Effects of changes in the economy on earnings of the poor.—On the surface, the trend in poverty over the past 24 years mirrors closely conditions in the economy during that period. The rapid growth during the 1950's and 1960's boosted the standard of living for all Americans—low income as well as high income. Since the official measure of poverty is "absolute," rising productivity pushed up standards of living across the board, and the share of the population left below the poverty line declined. However, economic stagnation of the 1970's halted the decline in the rate of poverty. Real wage growth was negative (on average) during the decade overall, and family median incomes also declined. The proportion of families in poverty totaled about the same near the end of the decade as the proportion at the beginning. Then, in January 1980, the economy began a decline which, after a brief reversal, dropped into the worst downturn since the Great Depression. During this time period the rate of poverty rose.

A faltering economy affects the rate of poverty in two ways: (1) higher unemployment causes additional workers to fall below the income poverty line, and (2) higher unemployment decreases the ability of poor families to increase earnings by additional work of earners or by having other family members go to work.

Contrary to popular notions, many of the poor do work. Of poor adults under age 65, 46 percent had earnings in 1982. The average amount of annual earnings of these adults $2,500. Of the total income received by families with nonelderly heads, about 50 percent was from earnings.

2. Government transfers and elderly poverty.—The rate of poverty for the elderly showed a dramatic decline over the 23-year period since such data were tabulated. From 35.2 percent in 1959, substantially above the rate of other adults, the rate of poverty has dropped steadily until in 1982 it reached 14.6 percent, about the

same as the overall rate. The growth in Federal Government transfer payments to the elderly is the primary factor which accounts for the general decline in the rate of poverty for the elderly. Other sources of elderly income have grown as well, particularly private pensions which have grown rapidly since the end of World War II. The social security program itself had the greater effect. Without income from social security, over one-half of the elderly would be poor.

Social security payments increased over the entire period for a number of reasons. These monthly checks to some 35 million persons (two-thirds of whom were aged) provided inflation-proof income. The major increases in social security came as a result of:

a. Periodic ad hoc benefit increases during the 1960's which culminated with the largest increases ever during the early 1970's. Congress increased social security benefit levels five times in the late 1960's and early 1970's. These five increases, ranging from 7 percent in 1965 to 20 percent in 1972, had a cumulative effect of raising the benefit base by 84 percent. The result was that when the first automatic cost-of-living adjustment (COLA) occurred in 1975, it was calculated on a higher base.

b. The enactment of automatic COLA in 1972. Originally touted as a conservative change that would make it less likely that the Congress would seek periodic increases during election years, this change resulted in large-scale increases in benefit levels during the mid to late 1970's and early 1980's. These increases, which permanently increased the base for all subsequent changes, were tied to increases in the consumer price index. Thus during the latter half of the 1970's, when inflation rates were highest, the purchasing power of recipients of social security was fully protected. At the same time, the standard of living of many working families deteriorated as increases in wages failed to match increases in prices. The poverty threshold, tied to the CPI, thus outstripped increases in earnings, and more earners fell into poverty. The weak economy from 1980–1982 led to increasing poverty rates among families with working members.

3. The effect of changes in earnings and transfers on female-headed families.—The 1979–1982 increase in the rate of poverty falls most heavily on female-headed families and on other nonaged adults who now receive most of their income from government transfers. The poverty rates for female-headed families have always been high. In fact, the rate of poverty among all female-headed families has not increased. The change driving up the poverty rate both for nonelderly adults and for children is that the number of female-headed families has grown sharply during the past 13 years.

At 36.2 percent in 1982, the rate of poverty for female-headed families was over two and one-half times that of all other families. This rate has grown by 13 percent from its low point in 1979. An unfortunate side-effect to this rise in poverty among female-headed families is its effects on the children living in these families. Of all children living in poor families in 1982, 52 percent were in female-headed families.

Not only are female-headed families the fastest growing poverty group, their problems seem the most intractable. For many of these

families, particularly those who rely on governmental transfer programs for their basic sustenance, even a strongly rebounding economy, which may alleviate poverty for other nonaged adult families, would not be expected to help these families much. Of the 3.2 million female-headed families with children in poverty, about half get most of their income from income transfer programs. Except for Alaska, no State provides a level of assistance through its AFDC program which takes families up to the official U.S. poverty threshold. In fact, over the past 10 years, the real level of AFDC assistance has declined as inflation has eroded purchasing power of State-determined AFDC levels which have not had increases anywhere near the rate of inflation. In some areas the decline in purchasing power has cut the real value of the benefit by as much as one-third. For example, in New York City, the maximum benefit level for a three-person AFDC family in September 1983 is $515, compared to $766 (in July 1983 dollars) 12 years earlier. Since food stamps do not count as income for poverty purposes even adding the value of this indexed transfer program has no effect on reducing the number counted as poor, even though it reduces need among the poor.

The recent budget cuts in AFDC are likely to have depressed the incomes of female-headed families. The new AFDC rules prevent sustained welfare assistance to families (female-headed or not) who have earnings. These changes also reversed two decades of policy concerning assistance to the poor. Since large numbers of heads of families work full time (or nearly so) and yet are unable to earn income up to the poverty level, welfare assistance had been considered an appropriate supplement for such a family. The recent changes countered that policy. Furthermore, these amendments reversed a policy tenet held for a number of years that those who work should always receive more income than those who do not.

Defenders of these changes have argued that participation in the welfare programs constitutes a "welfare trap" from which one has to extricate oneself and that continued dependence on welfare saps the initiative a person might have to work himself or herself out of poverty." These proponents of welfare cuts argue that high levels of welfare payments actually increase the incidence of poverty among working-age adults because they constitute a work disincentive. Furthermore, the basic welfare program for working-age adults with children is aid to families with dependent children. This program for the most part is limited to one-parent families—usually with female heads. Thus the AFDC program has been said to induce some poor families to split up in order to qualify for cash help.

Proposals To Reduce Poverty

One overriding conclusion of any analysis of poverty is that fluctuations in economic growth bear most directly on the extent of poverty. This conclusion is supported by analyses of the changes in poverty during the past 20 years as well as more recent preliminary analysis of the effect of the recent recession on the extent of poverty during 1982. Through overall fiscal policies designed to promote economic growth, the Congress has taken actions which, if

successful, will improve the status of people in poverty and will facilitate movement out of poverty through expanded work and earning opportunities. In addition, the Congress has recently enacted a new program of job training to assist poor working-age adults improve their work skills and enhance their earnings capabilities.

Changes in the income tax laws could increase aftertax incomes of those in poverty who pay income taxes, although it would not reduce the number in poverty. Federal income and payroll taxes have increased from $35 in 1978 (about $52 in 1982 dollars) to $440 in 1983 for a family of three with earnings equal to the poverty threshold. This represents an increase in taxes from 0.7 percent to 5.5 percent of income. In terms of aggregate revenue loss per dollar of benefit to poor taxpayers, the two most-effective tools to reduce the tax burden of the poor are the earned income credit and the zero bracket amount (ZBA). The earned income credit is phased out for incomes above $10,000 and, therefore, all of the benefits from increasing the credit go to people with incomes below the phaseout. The credit is not available to single persons or couples without dependents and, therefore, does not raise the tax entry point for very large families.

Increasing the zero bracket amount is also a relatively cost-effective way of providing tax relief to poor people because the tax reduction does not go to the taxpayers who itemize their deductions. However, married couples receive the same ZBA regardless of their family size; and, therefore, it too is not a very good way of providing relief to large families. Sizable increases in the ZBA would be needed to raise the income tax thresholds of single people and married couples up to the poverty level (a $2,000 increase for single people to $4,300 and a $1,400 increase for married couples to $4,800).

Substantial increases in the personal exemption would be necessary to raise the tax threshold for large families up to the poverty level for them. The differences between the poverty lines for four- and five-person families is almost $2,000, and it is over $1,600 between five- and six-person families. Therefore, a personal exemption of around $1,800 would be needed to provide the difference on tax entry points between four-, five- and six-person families that would correspond to their respective poverty lines.

Other options highlighted in this report for reducing poverty concern actions the Congress might take through expanded or better-targeted income transfer programs. Before discussing these possibilities in summary and general terms (they are considered in greater detail in the body of the report), two points should be made: (1) These proposals would increase Federal budget outlays. It is beyond the scope of this analysis to estimate budget costs incurred by the proposals, and there has been no attempt to assign priorities to the proposals. (2) It is undisputed that increased income transfers of certain types do, by their very nature, cause disincentives to work. They are also alleged to affect family stability although the extent to which this happens is unclear. In any event, tradeoffs must be made. Value judgments ultimately determine the desirability of income redistribution as a national goal.

Changes in the demographic composition of the population also will continue to affect what happens to the poverty population ir

the future. If the growth rate and number of female-headed families does not decrease, its effect on poverty may swamp other efforts to alleviate poverty among these groups. Furthermore, as the population ages and lives longer, the group of single women over age 75—a group with a very high poverty rate—will increase.

Some possible changes in Federal transfer programs would provide additional income to the poor but would have no effect on the poverty rate itself. Cash transfer programs might be increased to provide some additional income to certain groups, but cash benefits were not increased enough to bring the poor up to the official poverty threshold, the "poverty gap" would be narrowed, but the poverty *rate* would not be reduced. Furthermore, if food stamp benefits were increased, neither the poverty gap nor the poverty rate would be affected, since food stamps are not counted as income. This is not to suggest that the Congress may not want to consider such changes as being most responsive to the needs of the poor. But the current official poverty measures would not reflect such changes.

Additional spending for transfer programs would have the greatest effect on reducing poverty if directed at specific groups of the population. For example, increases in social security benefits for nonmarried widows and widowers would target additional income to a group of the elderly with a high rate of poverty. In addition, the Federal supplemental security income program (SSI) which already provides income almost up to the poverty line for poor elderly couples, could be liberalized to guarantee a poverty line income for all elderly couples.

A general increase in unemployment compensation (UC) outlays would not reduce the official poverty rate substantially because fewer than 1 out of 10 UC claimants is poor. Additional UC outlays for the long-term unemployed who did *not* receive UC in the last year would, however, have a more target-efficient effect. About two out of five of these individuals were classified as poor in 1982. A special unemployment assistance program for individuals in this category who had substantial work experience in the last 3 years, for example, could have a greater effect on the official poverty rate. One could also enhance this effect by applying a family income test, but this might stigmatize the program by making it similar to welfare.

These changes, while adding to budget expenditures, would be relatively uncontroversial, compared to proposals for increasing transfer payments to younger persons who are poor. Some proposals to reform the welfare assistance programs by expanding eligibility for non-elderly adults and children have surfaced over the past 15 years, have been vigorously championed by Republican and Democratic administrations alike, and have failed to be enacted. However, in 1981 Congress enacted significant AFDC reforms to narrow eligibility and to restrict benefits to those who do not work at all. One possible change would be to restore the so-called "work incentive bonus" which permitted AFDC-eligible persons to receive declining benefits as a supplement to earnings.

Even more controversial would be proposals to enact various basic changes in these programs or replacements for them. Ideas of this sort which have been proposed in the past include: a program of children's allowances; a negative income tax program which

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would provide benefits through the tax system to all the poor regardless of household composition or source of income; a requirement that States establish an AFDC income floor that would guarantee all poor one-parent families a minimum income equal to a particular proportion of the poverty threshold (most likely less than 100 percent).

In summary, the recent economic recession and cuts in social welfare programs have induced a rise in the rate of poverty in the United States. Continued economic recovery could be expected to relieve these conditions for some of the poor, those with a close attachment to the workforce. Changes in the income tax laws could be designed to add after-tax income to the poor who have earnings. For those with no close attachment to the workforce, income transfer program increases could be targeted to aid those most in need. Such policy changes, whether income tax relief or social welfare spending increases, would put additional pressure on the Federal budget deficit.

Section 1. DERIVATION AND DESCRIPTION OF THE FEDERAL DEFINITIONS OF POVERTY

At present, the Federal Government uses two, slightly different definitions of poverty, one for the purpose of counting poor persons and describing their demographic characteristics, the other for judging income eligibility in some programs intended to assist the poor.[1] The first can be called the statistical, or Census Bureau, definition of poverty; the second can be called the administrative, or Office of Management and Budget [OMB], definition. They are both derived from work done at the Social Security Administration [SSA] in the early 1960's and consist of a set of annual income amounts—variously called the poverty lines, the poverty guidelines, the poverty levels, or the poverty thresholds—that are varied by family size, family composition (age and sex, in the Census Bureau definition), geographic location (variances for Alaska and Hawaii, in the OMB definition), and, over time, according to price changes indicated by the Consumer Price Index [CPI]. Those with cash incomes below these amounts are judged "poor," in Census Bureau population surveys, or deserving of assistance, in the Federally supported programs that use the OMB definition or a variant of it to evaluate income eligibility.

Derivation of the Federal Poverty Definitions

> Like most ideas on poverty, the poverty line has a long history. In fact, it can be fairly said that [the present poverty definition is simply an updated version of] the calculations made in Speenhamland, England, in 1795, when a group of magistrates decided that a minimum income should be the cost of a gallon loaf of bread, multiplied by three, plus an allowance for each dependent.[2]

Although the concept of the cost of a minimal diet multiplied by three as the definition of poverty can be dated back to Speenhamland, the Federal poverty definitions now in use are more directly the result of work done in 1963–65 by Mollie Orshansky, at the Social Security Administration. In her work, Ms. Orshansky created a set of poverty income thresholds as a means of measuring changes in the low-income population over time, changes both in numbers and composition, particularly, families with children. Eventually, these thresholds, with some few adjustments, came to embody the Federal definition of poverty, a minimally adequate income.

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[1] It should also be noted that Census Bureau "counts" of the poverty population are used in various formulas that allocate Federal money among States and localities, as a measure of need for Federal aid.

[2] Stein, Bruno. "On Relief." (Basic Books, 1971). p. 6.

Ms. Orshansky chose to define poverty as the lack of enough income to purchase a minimally adequate "market basket" of goods and services—that is, in absolute rather than relative terms.[3] However, the data needed to define and price out a full-fledged poverty level market basket, showing the cost of minimal levels of food, shelter, clothing, et cetera, did not (and do not now) exist. Therefore, the one portion of an individual or family's market basket that did have a mechanism for estimating a minimally adequate dollar amount (food) was chosen as the basis for the Orshansky poverty thresholds. The thresholds were then extrapolated from the Department of Agriculture's 1961 economy food plan, the estimated dollar cost of a minimal food basket meeting then currently recommended dietary allowances [RDA's],[4] and represented what might be called a quasi-market-basket approach to estimating income levels providing a minimal level of goods and services.

The procedure for setting the original poverty thresholds was straightforward. The cost of purchasing food using the economy food plan of 1961, as varied by family size, age, and sex composition, and economics of scale, was simply multiplied by three to produce a set of income levels, or poverty thresholds.[5] The threefold multiplication factor was arrived at using the Agriculture Department's 1955 household food consumption survey; this survey showed the average proportion of after-tax income spent by families of three or more on food to be 33 percent. This procedure, with minor adjustments (see footnote 5), produced a matrix of 124 poverty thresholds that differed by family size, age and sex composition, and farm/nonfarm residence. The result defined as poor any individual or family whose cash after-tax income was not sufficient to buy a minimally adequate diet, assuming one-third of income was spent on food. Other measures of well-being—the ability to afford adequate housing or clothing, for example—were taken into account indirectly, through the threefold multiplication factor, in effect that assuming twice the cost of the food plan would be sufficient for other needs.

Since the development of the original Orshansky poverty thresholds, there have been minor revisions. However, the basic concept has remained the same.

Since the development of the poverty thresholds, they have been adjusted to reflect price changes since they, indirectly, represent the cost of purchasing a poverty level market basket. At first, the thresholds were adjusted annually to reflect changes in the cost of food. But, in 1969, when they were recognized by the Office of Management and Budget (OMB) as the official poverty measure, the thresholds have been adjusted by changes in the overall Consumer

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[3] A "relative" definition of poverty might, for example, define as poor any family with an income of less than half the median family income.

[4] In later years, the cost of the Agriculture Department's economy food plan, and its successor, the thrifty food plan, would be used to set food stamp allotments. Food prices in the economy food plan were a national average, as measured in CPI surveys.

[5] A multiplication factor slightly higher than three was used in establishing thresholds for individuals and 2-person families in order to adjust for the fact that certain necessities, such as housing, benefit from economies of scale in larger household units. In addition, in order to take into account the home production of food by farm families, separate farm and nonfarm thresholds were established, with the farm threshold set at 75 percent of the originally computed poverty thresholds, which became the nonfarm thresholds.

Price Index (CPI), not just food prices. At the same time, the original farm/nonfarm differential (see footnote 5) was changed to 85 percent.

The most recent revisions were made in 1980. These changes reduced the number of different thresholds in the matrix established by Mollie Orshansky, from 124 to 48, and produced a new set of thresholds that have slightly higher dollar amounts than the comparable earlier thresholds. This was done by eliminating the separate, lower farm poverty thresholds; eliminating separate poverty thresholds for female-headed families; and by establishing thresholds for families of eight and nine or more persons.[6]

The Statistical (Census Bureau) Poverty Definition

In 1969, OMB designated the then quasi-official Orshansky poverty thresholds as the official Federal poverty measure for statistical purposes and entrusted the Census Bureau with updating them and making any necessary technical revisions.[7] The Census Bureau poverty definition is, thus, the direct successor to the original Orshansky thresholds and forms not only the statistical poverty definition, but the basic Federal definition of poverty.

The definition.—Conceptually, the current Census Bureau poverty thresholds differ from the original Orshansky matrix only in the revisions made in 1969 and 1980—changes in the inflation indexing procedure (from food prices to the overall CPI); the 1969 revision and elimination of the separate farm-family poverty thresholds in 1980; the elimination of separate thresholds for female-headed families; and the extension of the matrix to include separate thresholds for families with eight and nine or more persons. The thresholds also differ in amount because they have been adjusted to account for inflation as measured by the CPI. However, the basic assumptions, derived from the data that went into the development of the original poverty thresholds (that is, the 1955 food consumption survey and the 1961 economy food plan), have not been revised.

As with the Orshansky thresholds, the Census Bureau poverty definition provides annual income amounts for judging whether unrelated individuals or families are "poor." These income levels are nationally uniform and vary only by family size and age and sex composition, now that the separate farm poverty thresholds have been dropped.

There are 13 published Census Bureau thresholds: one each for unrelated individuals and family sizes two through nine or more, with four additional thresholds for elderly and nonelderly individuals and elderly headed and nonelderly headed two-person families. They are actually weighted averages of the basic 48-threshold matrix (124 prior to 1981) that includes a range of thresholds varied by family composition. The published weighted average thresholds are produced by weighting the 48 thresholds to reflect the distribution of the low-income population among the "cells" of

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[6] Prior to 1981, the Census Bureau poverty thresholds stopped at seven or more persons.

[7] Until the 1969 OMB designation, most poverty statistics were generally the domain of the now-defunct Office of Economic Opportunity and the Census Bureau. The 1969 and 1980 technical revisions were based on the recommendations of special Federal interagency committees, although they were put into effect by the Census Bureau.

the 48-threshold matrix as shown in each annual Current Population Survey. The full 48-threshold matrix is used in actually counting poor persons.

Each year, preliminary Census Bureau poverty thresholds are available in early February, as soon as the average CPI for the previous year is available. In these preliminary thresholds, the Census Bureau simply increases the previous year's thresholds by the percent change in the average CPI between the 2 previous years. Later in the year, in the late spring or early summer, the official poverty thresholds for the prior year are calculated and published by the Census Bureau. In addition to showing the effect of inflation, these official thresholds are weighted to reflect the distribution of the low-income population, as shown in each year's Current Population Survey. Since the year-to-year change in the CPI must be known to compute new poverty thresholds, the thresholds calculated in any given year are actually those showing what poverty level incomes were in the prior year; and, they are used in counting that year's number of poor persons in the spring Current Population Survey. The most recent Census Bureau poverty thresholds are those for 1982, calculated and published in 1983 and are shown in table 1. The weighted thresholds for 1968 which illustrate the earlier farm/nonfarm and sex of household head variations are shown in table 2.

TABLE 1.—WEIGHTED AVERAGE POVERTY THRESHOLDS IN 1982

Size of family unit	Threshold
1 person (unrelated individual)	$4,901
15 to 64 years	5,019
65 years and over	4,626
2 persons	6,281
Householder 15 to 64 years	6,487
Householder 65 years and over	5,836
3 persons	7,693
4 persons	9,862
5 persons	11,684
6 persons	13,207
7 persons	15,036
8 persons	16,719
9 persons or more	19,698

Source: U.S. Bureau of the Census, Current Population Survey, series P–60, No. 140, p. 30.

TABLE 2.—WEIGHTED AVERAGE POVERTY THRESHOLDS IN 1968

Number of family members	Total	Nonfarm			Farm		
		Total	Male head	Female head	Total	Male head	Female head
1	$1,742	$1,748	$1,827	$1,700	$1,487	$1,523	$1,441
2	2,242	2,262	2,272	2,202	1,904	1,910	1,812

TABLE 2.—WEIGHTED AVERAGE POVERTY THRESHOLDS IN 1968—Continued

Number of family members	Total	Nonfarm			Farm		
		Total	Male head	Female head	Total	Male head	Female head
3	2,754	2,774	2,788	2,678	2,352	2,359	2,258
4	3,531	3,553	3,555	3,536	3,034	3,031	3,018
5	4,158	4,188	4,191	4,142	3,577	3,578	3,565
6	4,664	4,706	4,709	4,670	4,021	4,021	4,020
7 or more	5,722	5,789	5,804	5,638	4,916	4,919	4,847

Source: U.S. Bureau of the Census, Current Population Survey, series P–60, No. 68. p. 11.

Counting the poor.—Although the Census Bureau thresholds themselves form the Federal definition of poverty for statistical purposes, the way in which they are used to count the poor has a significant effect on the extent to which they show poverty in the U.S. population in any Census Bureau survey. Five rules followed by the Census Bureau in counting the poor have an important effect in this regard:

(1) Unrelated individuals are included in the potential poverty universe only if they are age 14 or older. Poor individuals under 14 who are not living with their family are simply not counted.

(2) Multi-person households (that is, residential units) are counted as a single unit, having their aggregate income compared to the poverty threshold for that number of persons, only to the extent that they are related. Thus, poor households (residential units) are not counted, per se. Rather, the poverty count is one of unrelated individuals and families; individuals living with unrelated persons have only their own income compared to the single-person poverty threshold and the related persons are considered separately as families.[8]

(3) When comparing an individual or family's income to the appropriate poverty threshold, annual income is used. Thus, those with little or no income for a portion of the year are not counted as poor if they receive enough income in the remainder of the year to bring them above the poverty threshold.

(4) Before-tax cash income is used in judging whether an individual or family is poor. Thus, those with disposable, after-tax income below the poverty thresholds may, in some cases, not be counted as poor.

(5) Non-cash income is not counted in judging the poverty status of an individual or family.

As can be seen, these rules affect the statistical results of using the current Federal poverty definition: In some cases increasing the number of poor counted by the Census Bureau, in some cases, decreasing that number; but, in all cases, affecting the demographic profile of the poverty population.

[8] A variant of this rule requires that families living with families are not included in the poverty universe, per se. Although they do not appear in the count of poor families, they do appear in the count of poor persons.

THE ADMINISTRATIVE [OMB] POVERTY DEFINITION

A number of federally supported programs to assist the poor are required by law (or have administratively chosen) to use a variant of the Census Bureau poverty thresholds in judging income eligibility. The basic variant can be called the administrative, or OMB, poverty definition; it is a simplified version of the previously discussed Census Bureau weighted average poverty thresholds.

The definition.—Since 1967, various Federal agencies, under direction from the OMB, have been responsible for publishing poverty income guidelines to be used in federally supported programs assisting the poor.[9] These income poverty guidelines are derived directly from the Census Bureau weighted average poverty thresholds, although they differ noticeably in amount.

As with the Census Bureau thresholds, the OMB income poverty guidelines are revised annually and set forth annual dollar income levels below which individuals and families might be judged poor enough to be deserving of assistance. The procedure for calculating each year's OMB guidelines involves a process of revising the Census Bureau's thresholds to: (1) round them off; (2) standardize the dollar differences between the thresholds for different family sizes; (3) create individual poverty guidelines for families larger than 9; and (4) create separate poverty guidelines for Alaska and Hawaii.

Each year, the revision is accomplished by taking the previous year's published Census Bureau weighted average poverty thresholds [10] and:

(1) Increasing them by the percent change in the average CPI between the previous 2 years; [11]

(2) Calculating the average difference between the thresholds for each family size and rounding that difference off to the nearest whole $20; [12]

(3) Rounding off the Census Bureau threshold for a four-person family upward to the nearest $50; and

(4) Adding or subtracting the average difference found in step No. 2 to or from the rounded-off four-person amount to create the guidelines for different family sizes.[13]

This creates an adjusted and rounded-off version of the Census Bureau thresholds for use in program eligibility determinations. As can be seen, this procedure produces a four-person poverty guide-

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[9] The poverty guidelines were first published by the Office of Economic Opportunity, then by its successor, the Community Services Administration. Since the 1981 demise of the Community Services Administration, they have been the responsibility of the Department of Health and Human Services, which publishes them annually, each March or April, in the Federal Register.

[10] The separate Census Bureau thresholds for elderly and nonelderly individuals and two-person families are not reflected in the OMB guidelines.

[11] This step is the same procedure followed by the Census Bureau in calculating its preliminary poverty thresholds each year, that is, prior to weighting for the distribution of the low-income population. Current weighting is not done for the poverty guidelines because it would mean waiting several months for the results of the spring Current Population Survey and has proved to make only a small difference in the result.

[12] The dollar difference between the Census Bureau thresholds for each family size are not uniform, reflecting economies of scale in the economy food plan on which they are based.

[13] As can be seen, this procedure produces separate guidelines for families larger than nine persons, which have a single Census Bureau poverty threshold. Before 1983, the poverty guidelines included a separate set of farm poverty guidelines, set at 85 percent of the basic guidelines. Now that the Census Bureau thresholds have dropped the farm/nonfarm distinction, so have the poverty guidelines.

line very close to the comparable Census Bureau four-person poverty threshold (only a rounding-off difference). However, for other family sizes the guidelines differ a bit more from the Census Bureau threshold; they are higher for families smaller that four-persons and lower for larger families.

The adjustment establishing separate guidelines for Alaska and Hawaii is accomplished by taking the guidelines calculated above and increasing them by 25 percent for Alaska and 15 percent for Hawaii, based on differences in Federal salaries for those States. The Census Bureau thresholds are nationally uniform and do not include geographic adjustments.

The end result of the procedure is a set of basic guidelines that are easily used for program eligibility purposes. They are made available, as required by law,[14] in the early spring (March or early April) of each year. But, although they reflect inflation only through the previous year, they are used as poverty guidelines for the upcoming year,[15] unlike the Census Bureau thresholds, which are used to count poverty in the previous year.

TABLE 3.—COMPARISON BETWEEN THE CENSUS BUREAU POVERTY THRESHOLDS AND THE OMB POVERTY GUIDELINES: 1982 (AS PUBLISHED IN 1983)

Size of family unit	Census weighted average thresholds	OMB guidelines		
		All States except Alaska and Hawaii	Alaska	Hawaii
1	4,901	4,860	6,080	5,800
2	6,281	6,540	8,180	7,530
3	7,693	8,220	10,280	9,460
4	9,862	9,900	12,380	11,390
5	11,684	11,580	14,480	13,320
6	13,207	13,260	16,580	15,250
7	15,036	14,940	18,680	17,180
8	16,719	16,620	20,780	19,110
9	19,698	18,300	22,880	21,040

Using the OMB poverty income guidelines.—Although the basic administrative version of the Federal poverty definition is the OMB poverty guidelines published by the Department of Health and Human Services, they are only guidelines. Each program that uses the OMB poverty definition for eligibility determinations uses it according to the law and regulations governing that program. Thus, for administrative purposes, "poverty," in the sense of qualifying for assistance because of low income, can be a variety of income levels.

[14] Sections 652 and 673(2) of the Omnibus Budget Reconciliation Act of 1981, Public Law 97-35.

[15] The exact period for which the poverty guidelines published each spring are used as eligibility determinants varies by program; for example, the Food Stamp Program does not recognize the spring update until July of each year.

The poverty income guidelines, or, more often, adaptations of them, are used in a number of Federal programs, typically programs providing noncash aid. An illustrative list would include:

Department of Health and Human Services

Community Service Block Grant
Low-Income Home Energy Assistance Block Grant
Head Start

Department of Agriculture

Food Stamps
National School Lunch Program (free and reduced-price meals)
Special Supplemental Food Program for Women, Infants, and Children [WIC]

Department of Labor

Job Corps
Migrant and Seasonal Farmworker Programs

Department of Education

Upward Bound

Office of Personnel Management

Federal Employment for Disadvantaged Youth (summer)

In using the OMB poverty guidelines, Federal programs vary from them in five basic ways, either by law or regulations.

1. Perhaps the most common variation is to use a percentage of the OMB guidelines as an income eligibility limit. Thus, the national school lunch program requires that free meals be made available to children from families with incomes below 130 percent of the OMB poverty guidelines.

2. Many programs also use a monthly version of the OMB guidelines, which are themselves annual income levels. Thus, the food stamp program judges eligibility by whether a household's counted monthly income falls below one-twelfth of the OMB poverty guidelines for that number of persons.

3. As published, the OMB poverty guidelines are intended to be used by having total cash income, from all sources and before taxes, counted against them. However, some programs count only a portion of gross cash income when measuring income against the OMB guidelines or a percentage variation thereof. For example, the food stamp program counts gross, pretax income (with some minor exceptions) against a monthly version of 130 percent of the OMB guidelines for nonelderly, nondisabled households. In addition, the food stamp program has a separate test which counts only a portion of gross income (less certain deductions for taxes and work expenses, shelter expenses, medical expenses, etc.) against the OMB guidelines themselves.

4. Some programs use the OMB poverty guidelines or, more often, a percentage variation of them, as a ceiling on how high income eligibility limits can be set by States, localities, or local agencies. Thus, the WIC program allows local agencies to set

income standards of eligibility as high as 185 percent of the OMB guidelines.

5. As published, the OMB guidelines, as with the Census Bureau thresholds, are technically guidelines for unrelated individuals and families, not households (that is, residential units). However, some programs apply them, or a variation, to residential units or something very close to residential units, regardless of relatedness.

Section 2. DESCRIPTION OF PERSONS AND FAMILIES IN POVERTY IN 1982

Data presented in this section are from the March 1983 Current Population Survey (CPS). [1] Once each year the U.S. Bureau of the Census conducts a special income supplement to the CPS—the same basic survey which is used for arriving at the U.S. monthly unemployment rate. It is from this survey that the Bureau publishes its annual reports on money income, and characteristics of the population below the poverty threshold (series P–60 reports). The survey data provides a snapshot of the noninstitutionalized, civilian population, and allows for analysis of the population in terms of demographic characteristics and income receipt.

Demographic Characteristics of the Poor in 1982

The incidence and number of people in poverty vary greatly among demographic groups. A person's age, race, sex, family status,[2] and family size are all related to the likelihood of being poor. In 1982, children, blacks, people of Spanish origin, and women were more likely to be poor than the population in general; whites, males, the aged, and persons living in married couple families were less likely to be poor.

Age

Approximately 34.4 million persons, or 15.0 percent of the civilian non-institutionalized population, were in poverty [3] in 1982. Among those who were poor, 13.7 million, or nearly 40 percent, were children (under age 18) (figure 1). About 17 million nonaged adults (age 18 to 65) and 3.8 million persons age 65 and over were poor, representing about 49 percent and 10.9 percent of the poor, respectively. Among these age groups, only children were overrepresented among the poor when compared to the total population. In 1982, more than one in every five children was poor.

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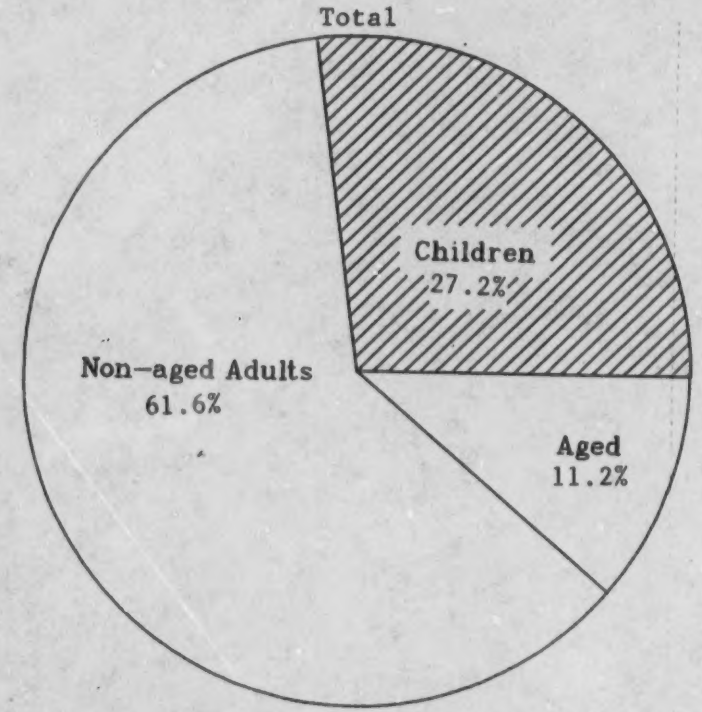
[1] Unless noted otherwise, figures in this section were prepared by the Congressional Research Service [CRS], from analysis of the March 1983 Current Population Survey [CPS] computer data tapes.

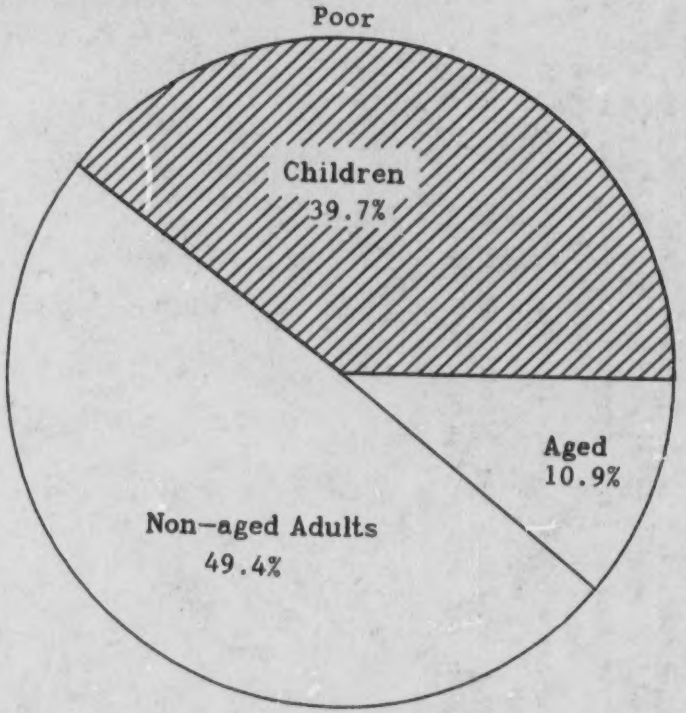
[2] All counts of persons by family status and counts of families, includes unrelated subfamilies. Unrelated subfamilies are not included in the Census Bureau's count of poor families.

[3] In 1982, the poverty threshold for a family of four was $9,862.

FIGURE 1.—TOTAL AND POOR POPULATION BY AGE



Total U.S. population = 229.4 mill.



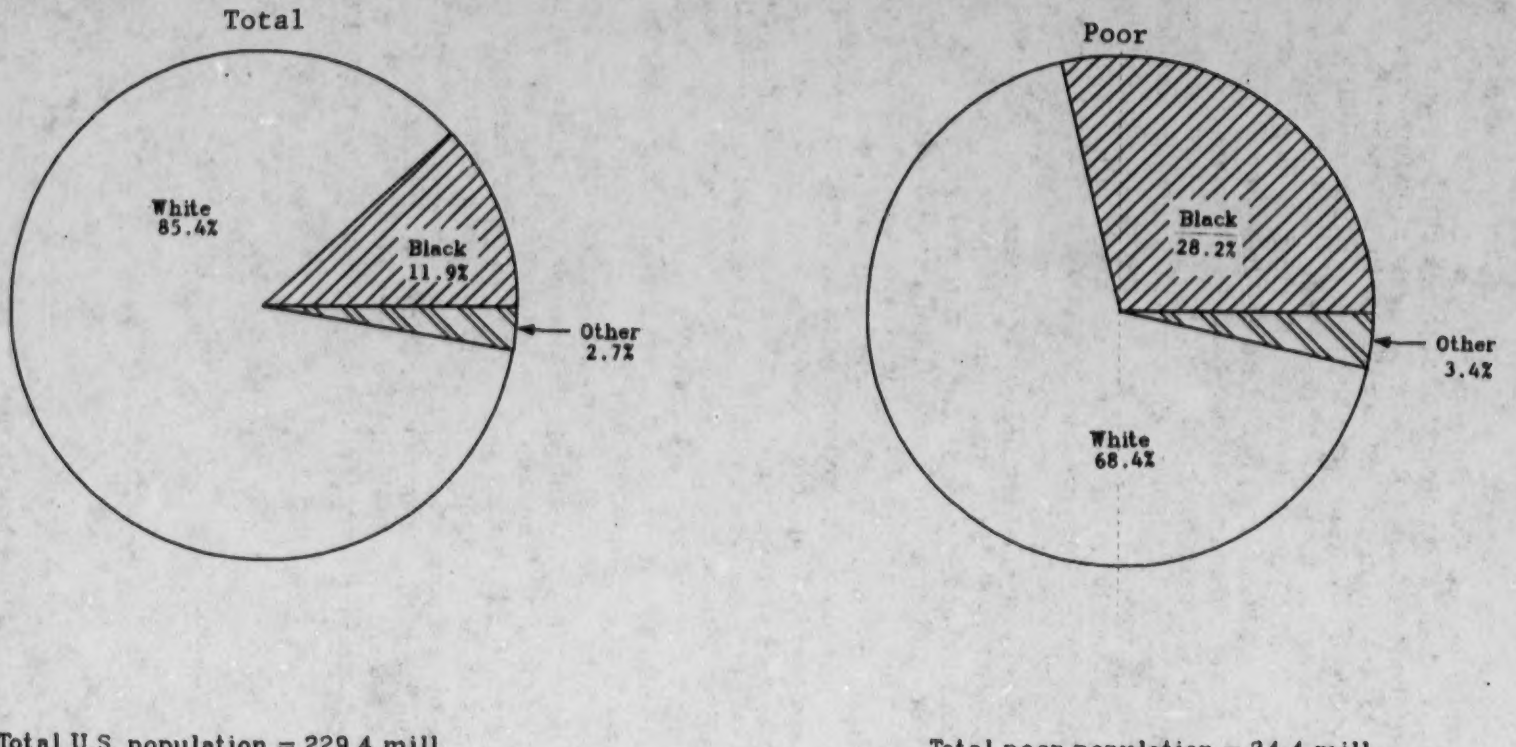
Total poor population = 34.4 mill.

Race

Slightly over two-thirds of the poor were white (figure 2). However, blacks, who accounted for about 11.9 percent of the total population, were disproportionately represented among the poor, accounting for 28.2 percent of all poor persons. People of Spanish origin,[4] while representing about 6 percent of the total population, accounted for nearly 12.5 percent of the poor. Whereas 12.0 percent of all whites were poor, 35.6 percent of all blacks and 29 percent of all people of Spanish origin were poor.

[4] People of Spanish origin may be of any race.

FIGURE 2.—TOTAL AND POOR POPULATION BY RACE



Total U.S. population = 229.4 mill.

Total poor population = 34.4 mill.

Poverty among children

Figure 3 shows poverty rates for children by race and family type. More than one in five children (21.9 percent) were poor in 1982. Nearly one-half (47.3 percent) of all black children were poor, compared to about one in every six (17 percent) white children. Children living in female-headed families with an absent father [5] were much more likely to be poor than were children living with both parents (married couple families). Whereas 11.5 percent of white children and 23.3 percent of black children in married couple families were poor, 47.3 percent of white children, and 70.5 percent of all black children in female-headed families were poor.

Over one-half (52 percent) of all poor children lived in female headed families in 1982 (figure 4).[6] A much larger proportion of black children than white children lived in female headed families. In 1982, approximately 50.5 percent of all black children lived in female-headed families, compared to 14.6 percent of all children in white families (see figure 5). Three-quarters of all black poor children lived in female-headed families. In comparison, about 40.8 percent of all poor white children lived in female-headed families.

The incidence of poverty for families with children is related to the number of children in the family, family type, and race (figure 6). In 1982, about one in seven families (14 percent) with only one child were poor, but nearly one in four families (24.3 percent) with two children were poor. Approximately 42.2 percent of all families with four or more children were poor.

The poverty rate of black families with children was higher than that of white families. Whereas 30.8 percent of all white female-headed families with one child were poor, 49.1 percent of such black female-headed families were poor. In comparison, 6.7 percent of all other white families and 14 percent of all other black families, having only one child, were poor.

Female-headed families were several times more likely to be poor than were other types of families—mostly married couple families. About 36 percent of all female-headed families with one child were poor, compared to 7.5 percent of all other families with only one child. Female-headed families with four or more children had a poverty rate of 82.4 percent, compared to a rate of 29.6 percent for all other families with four or more children. Within racial groups, the poverty rate for a female-headed family with one child was higher than that of all other families having four or more children.

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[5] Hereafter referred to as female headed families.
[6] Excludes children who are unrelated individuals.

FIGURE 3.—SELECTED POVERTY RATES FOR CHILDREN BY RACE AND FAMILY STATUS: 1982

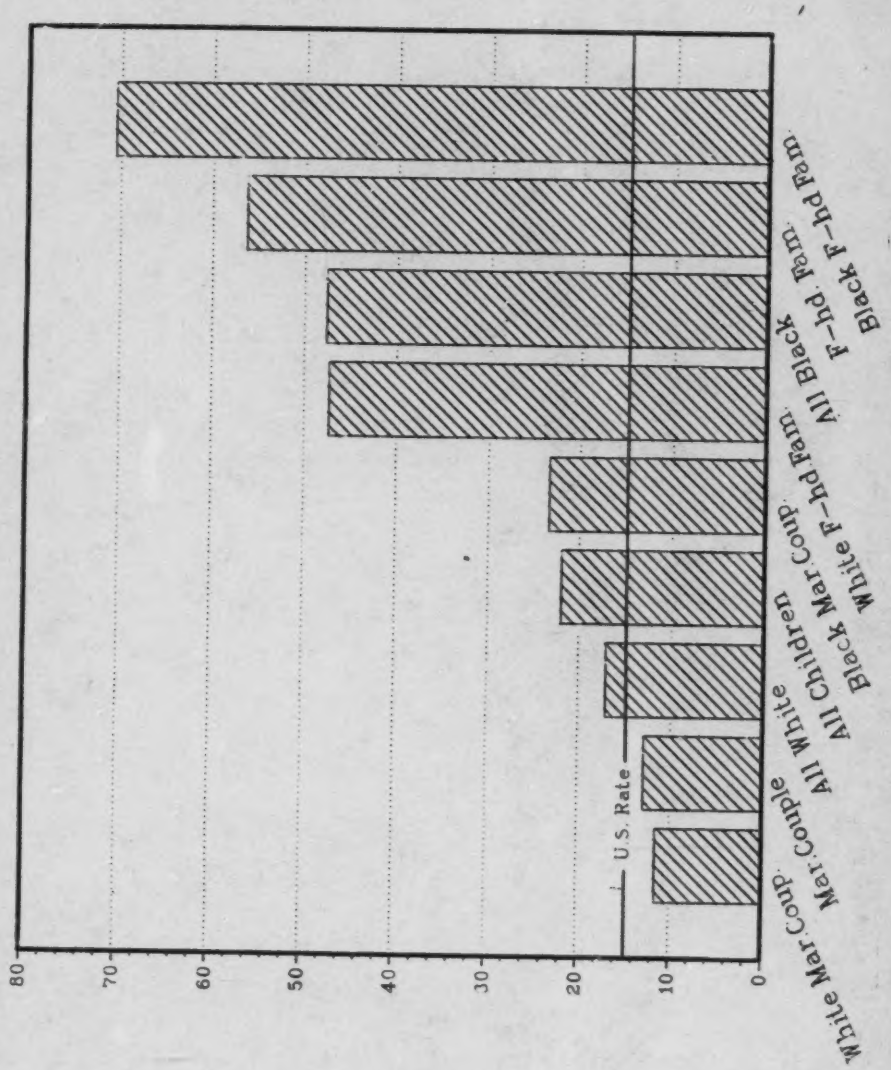

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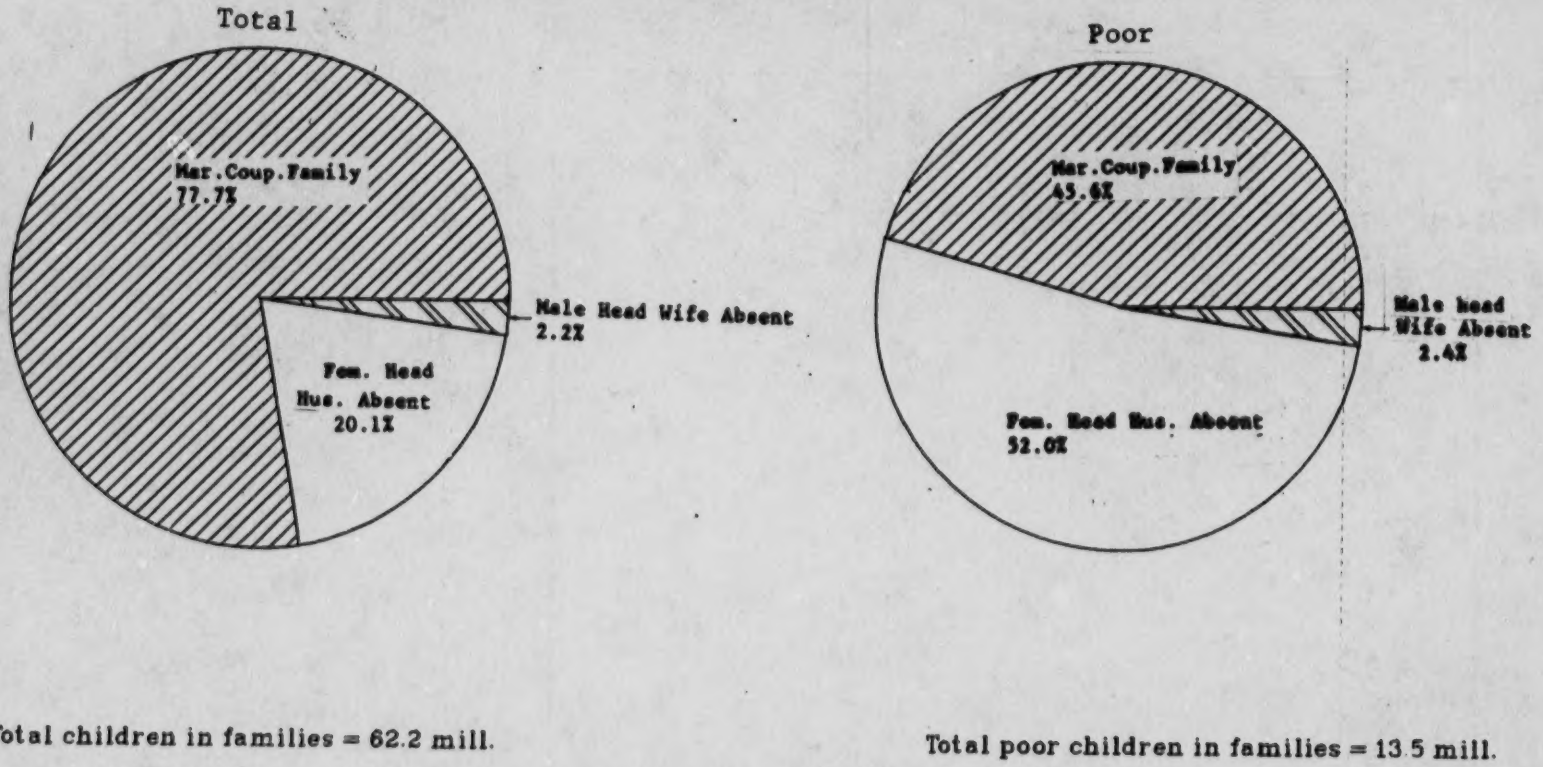
FIGURE 4.—TOTAL AND POOR CHILDREN BY FAMILY TYPE



Total children in families = 62.2 mill.

Total poor children in families = 13.5 mill.

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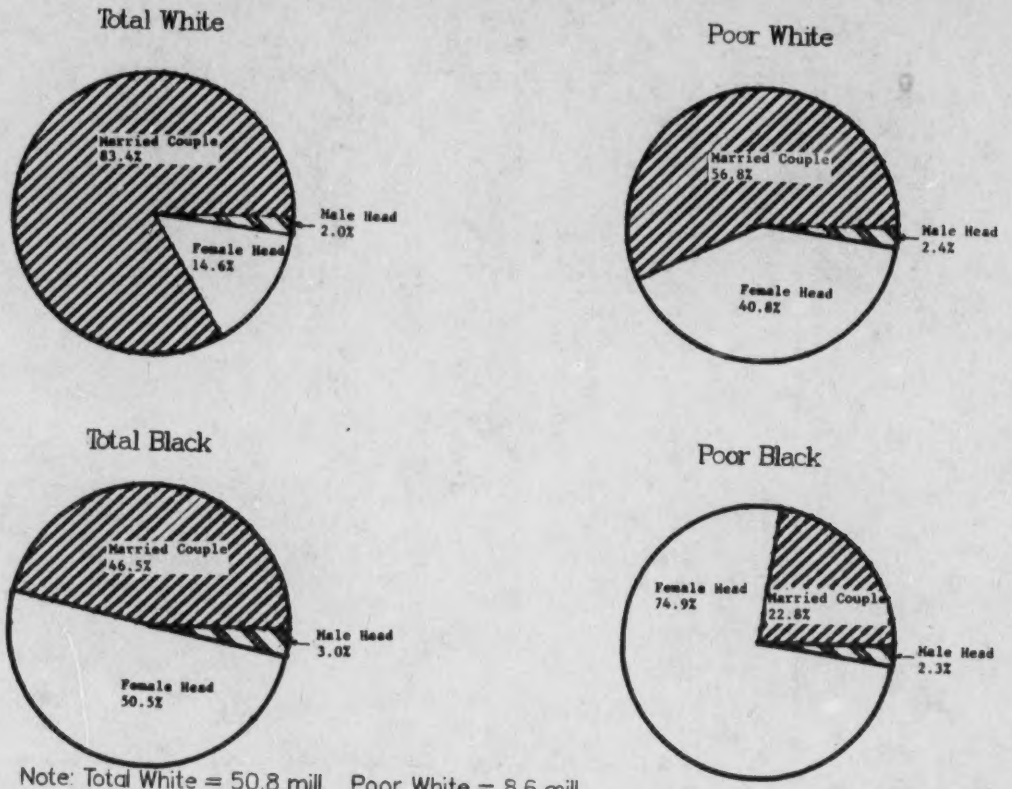
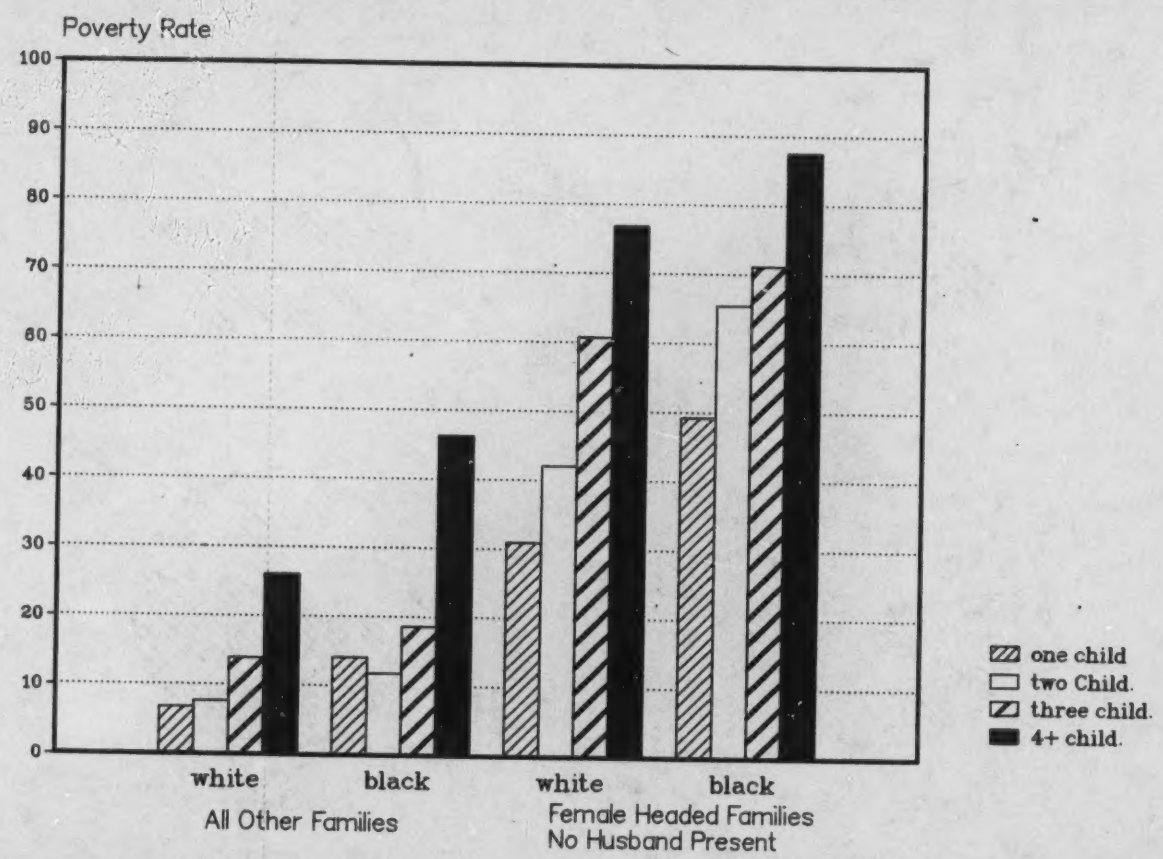
FIGURE 5.—CHILDREN IN POVERTY BY RACE AND POVERTY STATUS: 1982



Note: Total White = 50.8 mill. Poor White = 8.6 mill.
Total Black = 9.4 mill. Poor Black = 4.5 mill.

FIGURE 6.—POVERTY RATES FOR FAMILIES WITH CHILDREN BY NUMBER OF CHILDREN IN FAMILY, RACE, AND FAMILY TYPE



Poverty among the aged

Overall, 3.8 million, or 14.6 percent of the noninstitutionalized aged, were poor in 1982. In spite of the slightly lower incidence of poverty among the aged than for the population as a whole, poverty among the aged varied considerably (see figure 7). As with other groups, the poverty rate among the black aged was higher than that of the white aged—38.2 percent compared to 12.4 percent, respectively. The poverty rate for persons aged 75 and over was higher (18.1 percent) than that for persons between 65 and 74 years of age (12.4 percent). Unrelated aged individuals, who generally tend to be older than aged persons living in families and are likely to be female, had a poverty rate (27.1 percent); over three times greater than that of aged persons living in families (8.5 percent). White unrelated individuals had a poverty rate of 23.5, while black unrelated individuals had a rate of 61.6 percent. Women, who accounted for 59.1 percent of the noninstitutionalized aged population, accounted for 70.9 percent of the aged poor (see figure 8).

FIGURE 7.—SELECTED POVERTY RATES FOR THE AGED BY RACE, SEX AND FAMILY STATUS: 1982

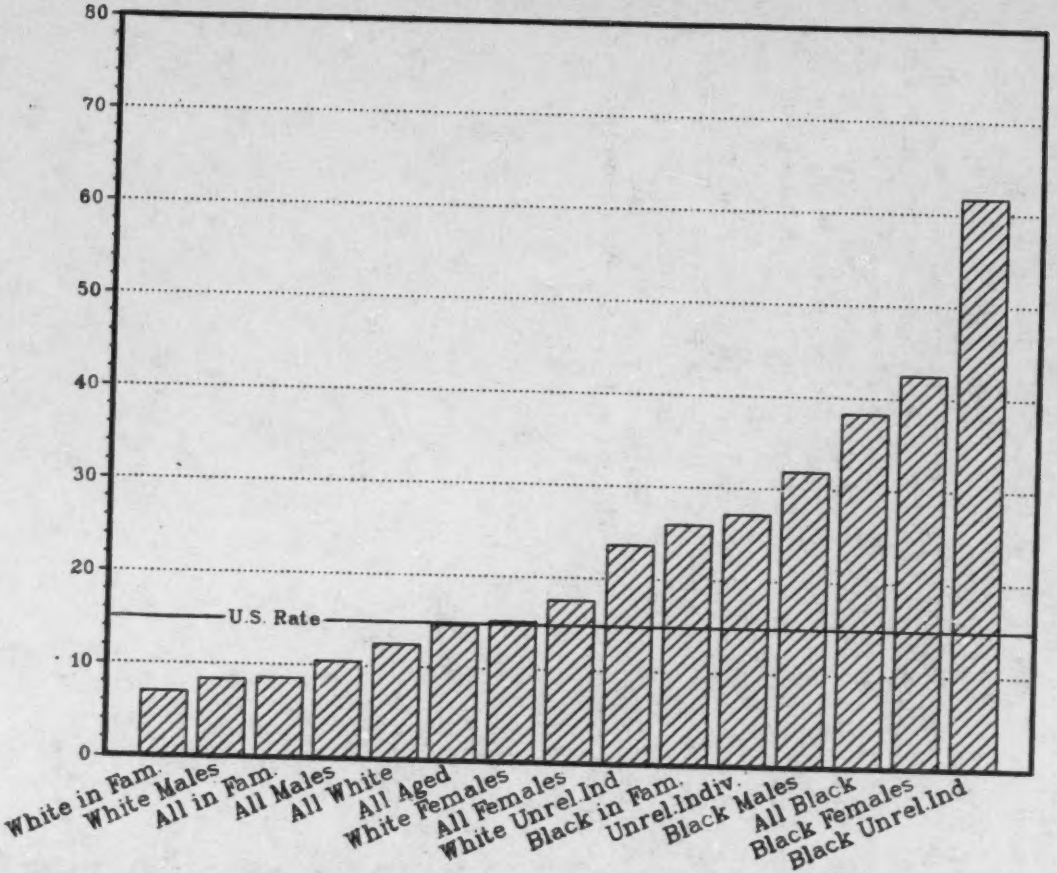
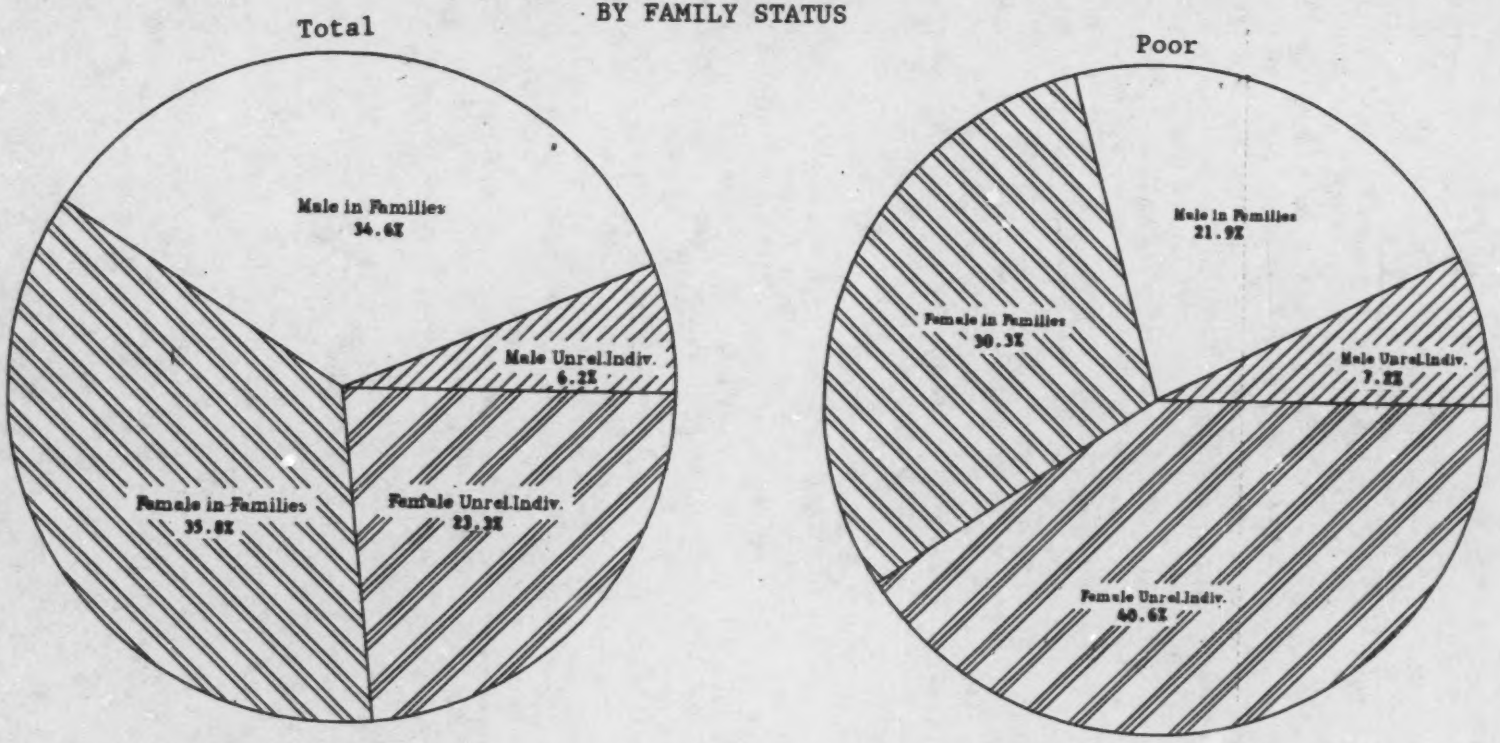


FIGURE 8.—TOTAL AND POOR AGED POPULATION

BY FAMILY STATUS



Total aged population = 25.7 mill.

Total aged poor = 3.8 mill.

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Long-Term Versus Short-Term Poverty

An important issue regarding the poverty population is the question whether families fall into poverty for relatively short time periods or remain in poverty for extended periods. In other words, is the poverty population, as reported annually by the Census Bureau, comprised of the same persons year after year, or is it an ever-changing segment of the society? Other related questions include (1) what types of households are likely to experience long-term poverty versus short-term poverty? (2) is poverty caused by temporary disruptions in people's lives, such as loss of a job, retirement, physical disability or illness, marital break up, or other changes in family status? (3) or, is poverty an enduring situation for those who lack the skills or ability to succeed in the labor market?

The answers to these questions are important in the design of appropriate policies and programs for dealing with the problems of poverty. However, since the early 1960's, when serious study of the issue began, theories have changed about whether there is a "culture of poverty" in which the poor are trapped, perhaps for generations, or whether poverty is a transitional stage through which people pass for relatively short periods of time. If poverty is a transitional condition, does it affect a large or small proportion of the population at some time in their lives?

CPS data provide information on family poverty status for only 1 year at a time, and therefore, cannot be used to evaluate the extent of long-term poverty. Analysis of long-term poverty versus short-term poverty has been possible only since longitudinal survey data on family income have become available in recent years. The most frequently used longitudinal survey is the Panel Study of Income Dynamics [PSID] carried out by the University of Michigan. This survey was started in the mid-1960's and continued until 1980.[7]

Data from the PSID have been used by several researchers to estimate the proportion of families in poverty who remain poor year after year and the proportion who experience poverty only temporarily. Three researchers used the poverty level as established by the Census Bureau and the PSID data to study permanent versus temporary poverty (Levy, 1977; Coe, 1978; Hill 1981). Table 1 summarizes their findings.

TABLE 1.—TURNOVER AMONG PERSONS IN POVERTY

Author	Poverty Line	Persistently poor	Transitorily poor
Levy (1977)	Absolute (official definition).	43% of 1967 poverty population (5% of all individuals) were income poor at least 5 of 7 years.	30% of 1967 poverty population (11% of all individuals) were income poor 2 of 7 years.

[7] The Michigan survey began in 1968, and was built upon 2 previous years of interviews carried out for the Office of Economic Opportunity.

TABLE 1.—TURNOVER AMONG PERSONS IN POVERTY—Continued

Author	Poverty Line	Persistently poor	Transitorily poor
Coe (1978)	Absolute (official definition).	1% of all individuals were income poor all 9 years.	25% of all individuals were income poor at least 1 of 9 years.
Hill (1981)	Absolute (official definition).	0.7% of all individuals were income poor all 10 years.	24% of all individuals were income poor at least 1 of 10 years.

Source: Adapted from Elizabeth Evanson, "The Dynamics of Poverty," Focus. vol. 5, No. 1, summer 1981, p. 9.

Levy, using 7 years of data from the PSID, found that of the 22.3 million people who were below the poverty line in 1967,[8] 30 percent were poor for only 1 year between 1967 and 1973, 43 percent were poor in 5 out of the 7 years, and the remainder moved in and out of poverty during that time.

In 1978 Coe analyzed 9 years of PSID data and found that, over that period of time, about 25 percent of the U.S. population fell into poverty for at least 1 year, although only 1 percent remained poor in all 9 years.

When 10 years of PSID data from 1969 to 1978 were analyzed by Hill in 1981, she found that, in those years, about 8 percent of all Americans were poor in any one year, just under 1 percent were poor in all 10 years, and almost one-quarter experienced poverty in at least 1 of the 10 years.

Thus, the research shows that poverty is experienced as a temporary situation by a large proportion of Americans at some time—nearly one-quarter of the population. It is less common for poverty to be a long-term situation. Poverty persists for as long as 9 or 10 years for a very small proportion of the U.S. population (about 1 percent), but, according to Levy's analysis, about 5 percent of the population falls into poverty for as many as 5 out of 7 years.

In addition to the finding that poverty is more short-term but widespread than it is long-term, the PSID data indicate that changes in family composition, including changes that are discretionary rather than inevitable, play a major part in short-term turnover among the low-income population. Improvement in the economic circumstances of a poor family is more likely to be caused by an increase in the number of major earners in the family than by increases in the incomes of the existing family members. Conversely, families are highly likely to fall into poverty when major earners leave the family unit. "The implication of this finding was that people may have more control over their economic status through decisions about marriage, divorce, or procreation, doubling up and undoubling than they do by seeking a better job or more work or investing more in their own human capital." [9]

[8] The number of persons counted as poor by the PSID in 1967 was about 20 percent lower than the official U.S. Census Bureau count of 27.8 million poor persons. This is believed to be caused by more complete reporting of income on the PSID than on Census surveys.

[9] "Five Thousand American Families—Patterns of Economic Progress." Vol. IX, Survey Research Center, Institute of Social Research, University of Michigan, 1981. p. 2.

While a small proportion of the population remains in poverty for extended periods of time, the PSID data show that their demographic characteristics differ substantially from those who fall below poverty for a short period of time. The long-term poor includes larger proportions of families in which the family head has one or more of the following characteristics: aged, poorly educated, black, female, and residing in a rural area.[10]

Altogether, poverty affects about one in four Americans at some time in their life. Poverty often results from changes in family composition and in the number of major earners in the family. Long-term poverty affects only a small proportion of Americans, but their characteristics, in general, differ from those of the short-term poor.

[10] "Highlights from the Panel Study on Income Dynamics." U.S. Department of HEW, May, 1974. p. 18.

Section 3. INCOME SOURCES OF POOR AND NONPOOR FAMILIES [1]

The income composition of the poor and nonpoor differs by family type. Female-headed families with children rely upon combinations of income that are markedly different from other families with children. Similarly, income differs by source among the aged poor and nonpoor.

Poverty Rates by Family Type [2]

Female-headed families with children, and unrelated individuals are more likely to be poor than other families with children or families with aged members. Table 1 shows that in 1982, 48.2 percent of all female-headed families with children were poor, as opposed to 10.2 percent of all other families. Although only about 9 percent of all families with an aged member were poor, 27.1 percent of all aged unrelated individuals were poor. About 21.4 percent of nonaged unrelated individuals were poor.

[1] Income figures reported in this section were derived from the March 1983 Current Population Survey (CPS) computer data tape. There is a tendency in surveys, such as the CPS, for respondents to underreport their incomes by both source and amount. Reporting of income from earnings is usually more accurate than the reporting of income from other sources. In general, CPS estimates of amounts or numbers of recipients of various cash and noncash transfer programs tend to be lower than administrative program totals. As a result, the data are a better reflection of general trends and patterns than of absolute numbers with income from a particular source, or the amount received.

[2] Unrelated subfamilies are included as families in this analysis. The Census Bureau excludes such families from its poverty counts.

TABLE 1.—PERCENTAGE OF FAMILIES AND UNRELATED INDIVIDUALS BY RATIO OF TOTAL INCOME TO POVERTY THRESHOLD,[1] 1982

	Ratio of total income to poverty threshold										
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor	Total (in thousands)
Total:											
In families	4.7	3.8	4.0	4.5	4.7	10.6	20.8	46.9	12.5	87.5	61,834
Unrelated individuals	8.2	5.8	9.2	8.8	6.7	11.5	18.2	31.7	23.1	76.9	27,908
No members age 65 or over:											
In families	5.4	4.1	3.8	4.3	4.3	9.8	20.3	48.0	13.3	86.7	50,521
Unrelated individuals	10.1	5.4	5.9	5.5	4.6	10.7	19.5	38.2	21.4	78.6	19,502
Any member age 65 or over:											
In families	2.0	2.4	4.7	5.6	6.2	14.0	23.0	42.1	9.0	91.0	11,313
Unrelated individuals	3.7	6.7	16.7	16.3	11.7	13.4	15.1	16.4	27.1	72.9	8,406
Families with children:											
Female headed family, no husband present	22.5	15.7	10.0	7.6	6.8	11.8	15.7	9.9	48.2	51.8	6,735
All other families	3.3	3.1	3.7	4.7	5.2	11.8	25.2	42.9	10.2	89.8	26,195

[1] Based on census ("Orshansky") poverty levels.

Source: March 1983 Current Population Survey (CPS). Table prepared by CRS.

Income of Families With Children

Table 2 shows the percent of female-headed families with an absent husband [3] which received income from various sources. The table shows that the percentage of female-headed families with earnings (wages, salaries, self-employment and farm income), alimony or child support, interest and dividends, and social security, tends to increase with distance above the poverty threshold. In turn, families below the poverty threshold are more likely to receive public cash assistance, presumably AFDC, and food stamps—a form of near-cash assistance.

[3] Hereafter referred to as female headed families.

TABLE 2.—PERCENT OF FEMALE-HEADED FAMILIES WITH CHILDREN WITH INCOME FROM VARIOUS SOURCES, BY RATIO OF TOTAL INCOME TO POVERTY THRESHOLD,[1] 1982

	Ratio of total income to poverty threshold									
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Number of families (in thousands)	(1,515)	(1,060)	(673)	(514)	(455)	(795)	(1,055)	(668)	(3,248)	(3,487)
Earnings	34.4	44.8	72.8	89.6	93.5	93.4	97.4	98.4	45.7	95.0
OASDI, railroad retirement	7.7	11.8	18.2	14.8	19.7	18.3	20.1	24.7	11.2	19.7
Pensions	.5	1.4	1.7	2.0	1.7	2.0	3.9	8.4	1.0	3.8
Unemployment compensation, workers compensation, veterans payments	2.9	10.3	14.5	19.7	20.8	16.1	16.5	14.9	7.7	17.1
AFDC, SSI, general assistance	64.4	72.9	49.1	27.5	19.9	10.3	4.6	3.5	64.0	11.1
Child support, alimony	15.6	19.8	28.2	32.4	41.1	42.5	52.4	48.0	19.6	44.9
Interest, dividends	11.0	10.1	17.8	28.8	31.3	42.2	60.6	78.4	12.1	51.3
Food stamps	74.4	77.0	59.9	38.0	18.7	8.1	4.1	2.5	72.3	11.6

[1] Based on census ("Orshansky") poverty levels.

Source: March 1983 Current Population Survey (CPS). Table prepared by CRS.

Nearly half (46 percent) of all poor female-headed families with children had income from earnings. However, earnings, on average, accounted for only about 33 cents of every dollar of income received (table 3). Nearly three-quarters of the poor families within 75 percent of the poverty threshold had income from earnings; for these families, earnings accounted for over half (52 percent) of total income. In contrast, 95 percent of nonpoor female-headed families had earnings which accounted for three-quarters of their total income.

TABLE 3.—PERCENT OF TOTAL FAMILY INCOME FROM VARIOUS SOURCES, BY RATIO OF TOTAL INCOME TO POVERTY THRESHOLD FOR FEMALE-HEADED FAMILIES WITH CHILDREN, 1982 [1]

	Ratio of total income to poverty threshold									
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	21.4	25.7	52.1	68.3	72.5	77.6	79.7	75.9	33.4	76.6
OASDI, railroad retirement	7.4	8.0	10.6	7.6	9.2	8.2	6.7	5.8	8.7	6.9
Pensions	.6	.8	.7	.7	.3	.7	1.0	1.5	.7	1.0
Unemployment compensation, workers compensation, veterans payments	1.0	3.6	3.1	3.4	3.1	1.8	1.7	1.4	2.7	1.9
AFDC, SSI, general assistance	62.0	55.3	25.1	11.2	5.8	2.3	.7	.4	46.9	2.1
Child support, alimony	6.9	6.3	7.6	7.6	8.6	8.0	8.4	8.0	6.9	8.1
Interest, dividends	.7	.2	.8	1.2	.5	1.4	1.9	7.0	.5	3.3
Food stamps [2]	(48.9)	(20.5)	(8.7)	(4.0)	(1.7)	(.5)	(.3)	(.1)	(24.2)	(.7)

[1] Based on census ("Orshansky") poverty levels.

[2] The cash value of food stamps is not included as part of total income, either for purposes of determining poverty status, or in the base for calculating the percentage share of total income. The numbers in this row for food stamps represent the added percentage contribution to total cash income.

Source: March 1983 Current Population Survey (CPS). Table prepared by CRS.

It is interesting to note that nonpoor female-headed families were more than twice as likely as poor families to have received child support or alimony—45 percent compared to about 20 percent. For poor and nonpoor female-headed families alike, child support amounted to about 7 to 8 percent of total income. However, the median amount of child support received was about two-thirds higher for nonpoor female-headed families—$2,010 compared to $1,200. (See table 4.)[4]

TABLE 4.—MEDIAN INCOME FROM VARIOUS SOURCES FOR FEMALE HEADED FAMILIES WITH CHILDREN BY POVERTY STATUS,[1] 1982

	Median income for those with income from a given source	
	Poor	Nonpoor
All sources	$4,546	$15,836
Earnings	2,990	12,979
OASDI, railroad retirement	3,385	5,387
Pensions	3,292	4,549
Unemployment compensation, workers compensation, veterans payments	1,226	1,158
AFDC, SSI, general assistance	3,154	3,286
Child support, alimony	1,202	2,007
Interest, dividends	16	64
Food stamps	1,417	599

[1] Based on census ("Orshansky") poverty levels.

Source: March 1983 Current Population Survey (CPS). Table prepared by CRS.

Cash public assistance—mostly AFDC—was the major source of income received by the 3.2 million poor female-headed families with children in 1982. Approximately two-thirds of these families received cash public assistance which, on average, accounted for about 47 cents of every dollar received. The median amount received by these families was $3,150.

Food stamps, although not cash income, were an important source of income to poor female-headed families.[5] Nearly three-quarters of these families (72.3 percent) received food stamps at some time during the year. For each dollar of cash income received, food stamps, on average, provided an additional 24 cents. Of those families receiving food stamps, half received stamps having a cash value higher than $1,417.

Among all other families (mostly married couple families) with children who were poor, earnings, on average, were the largest component of total income. (See tables 5, 6, and 7.) Three-quarters of all such families had income from earnings, which accounted for 68 cents of every dollar received. About 22 percent of poor families received income from either unemployment compensation, workers' compensation, or veterans' payments, which was about the same as

[4] The median marks the 50th percentile, or the point at which ½ are above and ½ are below.

[5] The cash value of food stamps was not included as part of total income for purposes of either determining poverty status, or in the base for calculating the percentage share of total income.

the percentage of nonpoor families receiving income from these sources. These sources accounted for about 8 cents of every dollar received by the poor, and about 2 cents of every dollar received by the nonpoor. About 23 percent of poor families received cash public assistance, which, on average, accounted for 13 cents of each dollar which all poor families received. One-half of all such poor families receiving public assistance received less that $3,220.

TABLE 5.—PERCENT OF ALL OTHER FAMILIES WITH CHILDREN WITH INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] 1982

	Ratio of total income to poverty threshold									
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Number of families (in thousands)	(872)	(815)	(977)	(1,238)	(1,351)	(3,100)	(6,599)	11,243)	(2,664)	(23,531)
Earnings	60.5	78.1	90.0	96.5	97.7	98.8	99.4	99.9	76.7	99.3
OASDI, railroad retirement	4.6	14.0	10.0	9.9	7.8	7.3	6.3	3.8	9.4	5.5
Pensions	1.0	3.6	1.7	2.6	3.4	4.1	3.8	4.6	2.0	4.2
Unemployment compensation, workers compensation, veterans payments	13.8	23.4	29.4	29.7	28.9	28.7	25.9	16.3	22.5	22.1
AFDC, SSI, general assistance	21.2	32.3	18.0	11.5	8.5	3.9	1.8	.8	23.4	2.5
Child support, alimony	8.8	10.9	13.0	14.0	10.7	12.0	11.9	13.1	11.0	12.5
Interest, dividends	29.5	21.9	26.8	36.4	45.9	50.4	65.9	81.9	26.2	68.8
Food stamps	40.3	55.0	37.5	22.6	13.1	6.9	2.3	.2	43.8	3.6

[1] Based on census ("Orshansky") proverty levels.

Source: March 1983 Current Population Survey (CPS). Table prepared by CRS.

TABLE 6.—PERCENT OF TOTAL FAMILY INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD [1], FOR ALL OTHER FAMILIES WITH CHILDREN

	Ratio of total income to poverty threshold									
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	61.5	74.1	74.8	82.5	87.2	89.8	92.7	93.6	67.7	92.7
OASDI, railroad retirement			5.7	4.9	3.1	2.4	1.5	.5	6.6	1.0
Pensions			1.0	.8	.9	1.1	.8	1.0	1.1	.9
Unemployment compensation, workers compensation, veterans payments		7.1	7.8	5.7	4.5	4.0	2.5	.9	7.6	1.7
AFDC, SSI, general assistance	.8	19.8	7.3	3.1	1.8	.5	.2	.0	13.1	.2
Child suppport, alimony	3.2	2.4	3.0	1.7	1.3	1.2	.8	.6	2.8	.7
Interest, dividends	1.8	2.0	.5	1.4	1.1	1.0	1.5	3.4	1.1	2.7
Food stamps [2]	(29.3)	(14.1)	(4.9)	(2.0)	(.8)	(.3)	(.1)	(.0)	(11.0)	(.1)

[1] Based on census ("Orshansky") poverty levels.

[2] The cash value of food stamps is not included as part of total income, either for purposes of determining poverty status, or in the base for calculating the percentage share of total income. The numbers in this row for food stamps represent the added percentage contribution to total cash income.

Source: March 1983 Current Population Survey (CPS). Table prepared by CRS.

TABLE 7.—MEDIAN INCOME FROM VARIOUS SOURCES, BY POVERTY STATUS,[1] 1982 FOR ALL OTHER FAMILIES WITH CHILDREN

	Median income for those with income from a given source	
	Poor	Nonpoor
All sources	$6,995	$28,698
Earnings	5,696	27,010
OASDI, railroad retirement	4,328	5,005
Pensions	2,755	5,786
Unemployment compensation, workers compensation, veterans payments	1,647	1,502
AFDC, SSI, general assistance	3,220	2,003
Child support, alimony	1,003	1,003
Interest, dividends	44	200
Food stamps	1,343	500

[1] Based on census ("Orshansky") poverty levels.

Source: March 1983 Current Population Survey (CPS). Table prepared by CRS.

Poor married couple families, and other families with children were much less likely than female-headed families to have received food stamps. Only about 44 percent of married couple familes received food stamps, compared to 73 percent of female-headed families. Of those married couple families receiving food stamps, the median amount received was roughly equivalent to that of female-headed families—$1,340 compared to $1,420, respectively.

Income of Families With Aged Members

The aged poor and nonpoor have a more diversified income profile than the nonaged. (See tables 8, 9 and 10.)

TABLE 8.—PERCENT OF FAMILIES WITH ANY MEMBER AGE 65 OR OVER WITH INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] 1982

	Ratio of total income to poverty threshold									
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Number of families (in thousands)	(227)	(267)	(528)	(638)	(704)	(1,588)	(2,600)	(4,761)	(1,022)	(10,291)
Earnings	15.4	26.9	25.4	27.0	33.8	36.5	49.5	64.8	23.6	52.1
OASDI, railroad retirement	59.4	90.0	93.4	93.7	96.0	95.4	95.1	89.9	85.0	92.7
Pensions	5.2	11.1	7.6	11.4	19.5	32.9	47.7	54.5	8.0	44.4
Unemployment compensation, workers compensation, veterans payments	4.0	8.5	6.6	12.9	13.5	13.2	12.7	11.1	6.5	12.1
AFDC, SSI, general assistance	19.7	35.1	33.0	18.2	15.6	9.6	4.2	2.3	30.6	5.8
Child support, alimony	3.5	7.4	2.5	4.1	3.0	4.1	4.2	5.0	4.0	4.5
Interest, dividends	33.4	29.7	29.0	40.8	48.3	62.9	80.1	92.4	30.2	78.5
Food stamps	24.2	39.7	34.0	15.7	6.5	3.5	1.7	.4	33.3	2.6

[1] Based on census ("Orshansky") poverty levels.

Source: March 1983 Current Population Survey (CPS). Table prepared by CRS.

TABLE 9.—PERCENT OF TOTAL FAMILY INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] FOR FAMILIES WITH ANY MEMBER AGE 65 OR OVER

	Ratio of total income to poverty threshold									
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	8.2	8.2	11.5	14.6	17.9	22.0	31.5	43.8	10.3	38.8
OASDI, railroad retirement	61.4	65.4	69.3	65.3	65.3	59.0	43.0	18.9	67.5	28.3
Pensions	4.0	4.0	3.2	3.3	4.4	6.9	11.3	12.7	3.5	11.6
Unemployment compensation, workers compensation, veterans payments	1.4	4.2	2.3	4.2	2.7	2.3	1.8	.8	2.7	1.2
AFDC, SSI, general assistance	20.6	13.9	11.2	7.4	4.5	2.2	.6	.2	12.8	.6
Child support, alimony	2.6	1.6	.5	1.1	.6	.6	.5	.4	1.0	.4
Interest, dividends	1.9	2.7	2.1	4.0	4.6	7.0	11.3	23.3	2.2	19.1
Food stamps [2]	(23.6)	(13.5)	(4.7)	(1.7)	(.8)	(.3)	(.1)	(.0)	(8.9)	(.1)

[1] Based on census ("Orshansky") poverty levels.

[2] The cash value of food stamps was not included as part of total income, either for purposes of determining poverty status, or in the base for calculating the percentage share of total income. The numbers in this row for food stamps represent the added percentage contribution to total cash income.

Source: March 1983 Current Population Survey (CPS). Table prepared by CRS.

TABLE 10.—MEDIAN INCOME FROM VARIOUS SOURCES, BY POVERTY STATUS,[1] 1982, FOR FAMILIES WITH ANY MEMBER AGE 65 OR OVER

	Median income for those with income from a given source	
	Poor	Nonpoor
All sources	$5,028	$18,671
Earnings	1,096	12,861
OASDI, railroad retirement	4,071	7,295
Pensions	1,280	4,091
Unemployment compensation, workers compensation, veterans payments	1,592	1,380
AFDC, SSI, general assistance	1,512	2,282
Child support, alimony	901	1,200
Interest, dividends	201	2,032
Food stamps	717	600

[1] Based on census ("Orshansky") poverty levels.

Source: March 1983 Current Population Survey (CPS). Table prepared by CRS.

As earlier shown in table 1, about 9 percent of all families with an aged member were poor. Overall, about half of all families with an aged member had earnings. About 92 percent also received social security. Consequently, at least 40 percent of all families with an aged member received both retirement and earned income during the year. In some cases, these families may consist of an older retiree, typically a male, with a younger spouse who may still be working. In other cases, a single aged person may live with children or relatives who are actively involved in the labor force.

Nonpoor families with an aged member were more likely to have income from earnings than were poor families—52 percent compared to 24 percent, respectively. Among those families with earnings, half of the nonpoor families earned more than $12,860; half of the poor families with earnings earned less than $1,100.

Retirement income in the form of social security and pensions differed markedly between the poor and nonpoor. Receipt of social security was somewhat higher for nonpoor (93 percent) than for poor (85 percent) families with an aged member. However, the median amount of social security received by nonpoor aged families was nearly 80 percent higher than that of the poor, $7,300 compared to $4,070.

Pension income was considerably higher among nonpoor than poor aged. Approximately 44 percent of the nonpoor aged in families received pension income, compared to 8 percent of the poor. Among the nonpoor, the median amount of pension income received was $4,090, compared to $1,280 for the poor. Since retirement income is linked to prior work experience and earnings, it is likely that most nonpoor aged had higher earnings when they worked than those that are poor.

Income from savings and investments, in the form of interest and dividends, was a significant part of the nonpoor aged families'

total income, accounting for 19 cents out of every dollar received.[6] About 78 percent of these families reported income in the form of interest and dividends, and one-half of these families received more than $2,030 over the course of the year.

In comparison to the nonpoor, poor families with an aged member relied mainly upon social security and cash public assistance, presumably SSI, for income support. About 31 percent of these poor families received cash public assistance. Among this group, an average of 68 cents out of every dollar came from social security, and 13 cents from cash public assistance. One-third of these families received food stamps, which on average, added an additional 9 cents to every dollar of income received.

The pattern of income receipt among aged unrelated individuals was, with few exceptions, very similar to that of aged persons in families. Only about 16 percent of nonpoor aged and 4 percent of poor aged unrelated individuals reported income from earnings. Income from interest and dividends was even more important for the nonpoor, accounting for 31 percent of their total income, on average, compared to 4 percent for the poor.

Among poor aged unrelated individuals, the contribution of food stamps to total income was much smaller (about 3 cents for each dollar of cash income) than that of the aged poor living in families (about 9 cents out of each dollar of cash income).

[6] Withdrawals from savings are not included as income on the CPS. For the aged in particular, dissaving may provide an important means of maintaining a desired level of consumption.

TABLE 11.—PERCENT OF UNRELATED INDIVIDUALS AGE 65 AND OVER WITH INCOME FROM VARIOUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] 1982

	Ratio of total income to poverty threshold									
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Number of unrelated individuals (in thousands)	(312)	(562)	(1,401)	(1,369)	(980)	(1,127)	(1,274)	(1,382)	(2,275)	(6,131)
Earnings	5.0	2.8	4.6	4.9	8.9	13.7	20.8	29.5	4.2	16.0
OASDI, railroad retirement	44.6	83.6	96.3	95.4	98.0	97.0	93.7	87.7	86.0	94.0
Pensions	3.5	4.8	4.7	12.2	25.7	37.1	49.1	51.2	4.6	35.4
Unemployment compensation, workers compensation, veterans payments	2.2	6.9	4.4	9.7	6.7	5.1	5.0	3.2	4.7	5.9
AFDC, SSI, general assistance	7.6	35.3	32.0	11.7	3.8	1.2	1.1	.4	29.5	3.8
Child support, alimony	3.1	2.6	2.2	1.5	3.5	2.4	2.3	3.5	2.4	2.6
Interest, dividends	32.2	25.3	35.4	55.8	68.8	79.7	89.0	96.4	32.4	78.3
Food stamps	9.6	31.2	27.4	4.7	1.5	.5	.2	.5	25.9	1.5

[1] Based on census ("Orshansky") poverty levels.

Source: March 1983 Current Population Survey (CPS). Table prepared by CRS.

TABLE 12.—PERCENT OF TOTAL FAMILY INCOME FROM VARICUS SOURCES, BY THE RATIO OF TOTAL INCOME TO THE POVERTY THRESHOLD,[1] FOR UNRELATED INDIVIDUALS AGE 65 OR OVER

	Ratio of total income to poverty threshold									
	Under 0.50	0.50 to 0.74	0.75 to 0.99	1.00 to 1.24	1.25 to 1.49	1.50 to 1.99	2.00 to 2.99	3.00 and over	Poor	Nonpoor
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Earnings	2.7	1.1	1.1	1.7	3.2	4.9	9.5	16.8	1.2	11.1
OASDI, railroad retirement	70.3	71.5	82.4	82.0	77.1	62.9	45.4	19.9	79.5	41.7
Pensions	4.1	1.7	1.1	2.8	6.2	10.1	16.9	16.6	1.3	13.6
Unemployment compensation, workers compensation, veterans payments	1.9	1.9	1.4	2.2	1.8	1.9	1.5	.5	1.5	1.2
AFDC, SSI, general assistance	5.8	19.7	10.1	5.3	.9	.5	.3	.0	12.1	.7
Child support, alimony	3.2	1.4	.5	.1	.8	.5	.6	.4	.8	.5
Interest, dividends	12.0	2.8	3.4	5.8	10.0	19.2	25.9	45.7	3.6	31.2
Food stamps [2]	(5.3)	(4.0)	(2.0)	(.2)	(.0)	(.0)	(.0)	(.0)	(2.6)	(.0)

[1] Based on census ("Orshansky") poverty levels.

[2] The cash value of food stamps is not included as part of total income, either for purposes of determining poverty status, or in the base for calculating the percentage share of total income. The numbers in this row for food stamps represent the added percentage contribution to total cash income.

Source: March 1983 Current Population Survey (CPS). Table prepared by CRS.

TABLE 13.—MEDIAN INCOME FROM VARIOUS SOURCES, BY POVERTY STATUS,[1] 1982, FOR UNRELATED INDIVIDUALS AGE 65 OR OVER

	Medium income for those with income from a given source	
	Poor	Nonpoor
All sources	$3,636	$8,215
Earnings	794	4,800
OASDI, railroad retirement	3,223	5,076
Pensions	870	2,855
Unemployment compensation, workers compensation, veterans payments	930	1,462
AFDC, SSI, general assistance	1,166	1,769
Child support, alimony	1,000	1,200
Interest, dividends	160	1,997
Food stamps	229	120

[1] Based on census ("Orshansky") poverty levels.

Source: March 1983 Current Population Survey (CPS). Table prepared by CRS.

In-Kind Income Sources

In addition to the sources of income already cited, two other sources of in-kind income are reported in this section—housing and medical assistance. Rather than focusing merely upon the receipt of government-supported housing and medical assistance, this section will briefly describe housing tenure and medical coverage of the poor and nonpoor.

Housing tenure

Table 14 shows housing tenure for poor and nonpoor aged and nonaged families and unrelated individuals. The table shows that the majority of poor families with an aged member (72 percent) and aged poor unrelated individuals (54 percent) owned their own home or lived with relatives in an owner occupied unit. In comparison, 86 percent of aged nonpoor families and 65 percent of aged nonpoor unrelated individuals owned their own home. About one in seven (14 percent) poor aged unrelated individuals reported living in publicly supported housing (either public housing or rent subsidized housing). About 7.6 percent of aged nonpoor unrelated individuals lived in publicly supported housing.

Among younger families, 41 percent of poor families owned their own home, whereas about 77 percent of nonpoor families owned their own homes. Among younger poor families, 14.0 percent lived in publicly supported housing.

TABLE 14.—HOUSING TENURE OF AGED, AND NONAGED, FAMILIES AND UNRELATED INDIVIDUALS BY FAMILY TYPE AND POVERTY STATUS, 1982

	Total	Percent of total				
				Rent housing		
		Own housing	No cash rent	Total	Publicly supported	Not publicly supported
Total:						
Total	89,742	62.7	2.1	35.2	3.6	31.6
Poor	14,189	40.0	4.6	55.4	11.9	43.5
Nonpoor	75,553	67.0	1.6	31.4	2.0	29.4
Total:						
In families:						
Total	61,834	72.2	1.6	26.2	3.1	23.2
Poor	7,731	40.9	3.5	55.7	14.0	41.7
Nonpoor	54,103	76.6	1.3	22.0	1.5	20.5
Unrelated individuals:						
Total	27,908	41.8	3.2	54.9	4.7	50.2
Poor	6,458	38.9	6.0	55.1	9.5	45.6
Nonpoor	21,450	42.7	2.4	54.9	3.3	51.6
No members age 65 or over:						
In families:						
Total	50,521	69.3	1.7	29.0	3.3	25.7
Poor	6,709	36.2	3.5	60.3	15.2	45.1
Nonpoor	43,812	74.4	1.4	24.3	1.5	22.7
Unrelated individuals:						
Total	19,502	33.3	2.8	63.9	2.7	61.2
Poor	4,182	30.9	5.4	63.7	7.0	56.8
Nonpoor	15,319	34.0	2.1	63.9	1.6	62.4
Any member age 65 or over:						
In families:						
Total	11,313	85.0	1.4	13.6	1.8	11.8
Poor	1,022	71.5	3.1	25.3	6.4	18.9
Nonpoor	10,291	86.3	1.2	12.5	1.4	11.1
Unrelated individuals:						
Total	8,406	61.7	4.1	34.2	9.3	24.8
Poor	2,275	53.6	7.2	39.3	14.1	25.2
Nonpoor	6,131	64.7	3.0	32.3	7.6	24.7

Source: March 1983 Current Population Survey (CPS). Table prepared by CRS.

Medical coverage

Medical coverage varies considerably among the aged and nonaged poor and nonpoor (table 15). The majority of aged poor (96 percent) have some sort of medical coverage. About 95 percent are covered by medicare, and 33 percent by medicaid. Except for medicaid, the nonpoor aged had higher reported rates of coverage for all forms of health coverage.

TABLE 15.—MEDICAL COVERAGE AMONG THE AGED AND NONAGED, BY POVERTY STATUS, 1982

	Total	Poor	Nonpoor
Total (number in thousands)	(229,412)	(34,398)	(195,014)
Total	100.0	100.0	100.0
No medical coverage	17.4	35.5	14.2
Any medical coverage	82.6	64.5	85.8
Employer group health	59.1	15.2	66.8
Medicare	12.0	12.4	12.0
Medicaid	8.2	37.6	3.1
Champus, VA, or military health care	4.4	2.6	4.7
Other health insurance	11.5	8.4	12.1
Persons under age 65 (number in thousands)	(203,674)	(30,647)	(173,027)
Total	100.0	100.0	100.0
No medical coverage	19.4	39.3	15.8
Any medical coverage	80.6	60.7	84.2
Employer group health	65.6	17.0	74.2
Medicare	1.4	2.3	1.3
Medicaid	7.9	38.2	2.5
Champus, VA, or military health care	4.6	2.7	4.9
Other health insurance	7.3	6.2	7.5
Persons age 65 and over (number in thousands)	(25,738)	(3,751)	(21,986)
Total	100.0	100.0	100.0
No medical coverage	1.4	4.1	.9
Any medical coverage	98.6	95.9	99.1
Employer group health	7.6	.6	8.8
Medicare	95.9	94.6	96.2
Medicaid	11.0	32.7	7.3
Champus, VA, or military health care	2.7	1.1	3.0
Other health insurance	44.7	26.0	47.9

Source: March 1983 Current Population Survey (CPS). Table prepared by CRS.

Among the nonaged, nearly 40 percent of the poor reported having no medical coverage compared to 16 percent of the nonpoor. Medicaid is the most prevalent source of medical coverage for the nonaged poor—38 percent being covered by this source. In contrast, employer group health coverage is the most prevalent source of medical coverage among the nonaged nonpoor. About 74 percent of the nonaged nonpoor have employer group health coverage, but only about 17 percent of the poor.

Section 4. TRENDS IN POVERTY: 1959–82

Trends in the Overall Poverty Rate [1]

About 15 percent of the U.S. population, 34.4 million people, had family incomes below the official poverty threshold in 1982. This is the fourth consecutive increase in the poverty rate. The poverty rate in 1982 is at its highest level since 1965.

This section of the report focuses on historical data for the time period 1959–82. Throughout this time period there were substantial differences between the overall poverty rate and the poverty rate of certain demographic subgroups (table 1). The overall poverty rate declined from 22.4 percent in 1959 to 11.1 in 1973, and has since climbed to 15 percent. While the rates for some demographic groups have declined, a number of rates have remained relatively high. The poverty rate for blacks failed to fall below 30.3 percent over this period. The rate for individuals in a family with a female head did not fall below 32 percent. The poverty rate for children was higher than 14 percent throughout these years.

The trends for these and other demographic groups are described below using the official census definition of poverty which is based upon pretax cash income. The census poverty rate is one measure of poverty that has been fairly standard over time. This type of measure can be useful in measuring progress against poverty. However, it should be noted that the method of estimating the poverty threshold was revised by the Census Bureau four times over this period—in 1966, 1974, 1979, and 1981. These revisions have had an impact upon the number of people in poverty. The first two revisions slightly reduced the number of poor, while the more recent changes increased the number.

[1] All poverty trend information is based upon published Census Bureau data contained in "Money Income and Poverty Status of Families: 1978," P–60, No. 124 and "Money Income and Poverty Status of Families: 1982," p 60, No. 140. All figures for children are for related children under 18 in families. These figures may differ with other parts of this report which provide a more refined breakdown of this age category. Data for blacks, the aged, and nonaged population were not available for the years 1961 to 1965.

TABLE 1.—POVERTY RATES AND NUMBERS OF PEOPLE IN POVERTY FOR SELECTED DEMOGRAPHIC GROUPS OVER TIME

	1959	1966	1970	1975	1978	1979	1980	1981	1982
Overall number in poverty (in thousands)...	39,490	28,510	25,420	25,877	24,497	26,072	29,272	31,822	34,398
Poverty rate (percent).....	22.4	14.7	12.6	12.3	11.4	11.7	13.0	14.0	15.0
Aged:									
Number (in thousands).....	5,481	5,114	4,709	3,317	3,233	3,682	3,871	3,853	3,751
Poverty rate (percent).....	35.2	28.5	24.5	15.3	14.0	15.2	15.7	15.3	14.6
Children:									
Number (in thousands).....	17,208	12,146	10,235	10,882	9,722	9,993	11,114	12,068	13,139
Poverty rate (percent).....	26.9	17.4	14.9	16.8	15.7	16.0	17.9	19.5	21.3
Nonaged adults:									
Number (in thousands).....	16,801	11,250	10,476	11,678	11,542	12,397	14,287	15,901	17,508
Poverty rate (percent).....		10.6	9.2	9.4	8.9	9.1	10.3	11.3	12.3
Individuals in female headed families:									
Number (in thousands).....	10,390	10,250	11,154	12,268	12,880	13,503	14,649	15,738	16,336
Poverty rate (percent).....	50.2	41.0	38.2	34.6	32.3	32.0	33.8	35.2	36.2
Blacks:									
Number (in thousands).....	9,927	8,867	7,548	7,545	7,625	8,050	8,579	9,173	9,697
Poverty rate (percent).....	55.1	41.8	33.5	31.3	30.6	31.0	32.5	34.2	35.6
Whites:									
Number (in thousands).....	28,484	19,290	17,484	17,770	16,259	17,214	19,699	21,553	23,517
Poverty rate (percent).....	18.1	11.3	9.9	9.7	8.7	9.0	10.2	11.1	12.0

Source: "Money Income and Poverty Status of Families and Persons in the United States: 1982," P–60, No. 140.

TABLE 2:—COMPOSITION OF POVERTY POPULATION FOR SELECTED DEMOGRAPHIC GROUPS

[Percent of poverty population]

	1959	1966	1975	1982
Aged	13.9	17.9	12.8	10.9
Children	43.6	42.6	42.1	38.2
Nonaged adults	42.5	39.5	45.1	50.9
Individuals in female-headed families	26.3	36.0	47.4	47.5
Individuals in other families	73.7	64.0	52.6	52.5
Blacks	25.1	31.1	29.2	28.2
Whites	72.1	67.7	68.7	68.4
Other	2.8	1.2	2.1	3.4

Source: Estimates based on data from "Money Income and Poverty Status of Families and Persons in the United States: 1982." P–60. No. 140

In the late 1950's and early 1960's the number of poor persons in the United States stood around 39.5 million, representing approximately 22 percent of the total population (figure 1). Between 1959 and 1969 this number declined at an annual rate of roughly 1.5 million per year. The largest decline in the number of people below the poverty threshold for this 10-year period occurred between 1964 and 1969. From 1969 to 1971 the rate stayed about the same, perhaps as a result of the sluggish economy. From 1971 to 1973 the rate continued to decline, but at a slower pace than in the earlier period. In 1973 the overall poverty rate was 11.1 percent, its lowest level over the entire 24-year period. This rate represented 23.0 million individuals in families with incomes below the poverty threshold. During the recession of 1974 and 1975 the rate increased slightly to 12.3 percent. From 1975 through 1978 the rate varied between 11.4 percent and 12.3 percent. Since 1978, the poverty rate has increased. By 1982 the overall rate had increased 31.6 percent from its 1978 level, to 15 percent.

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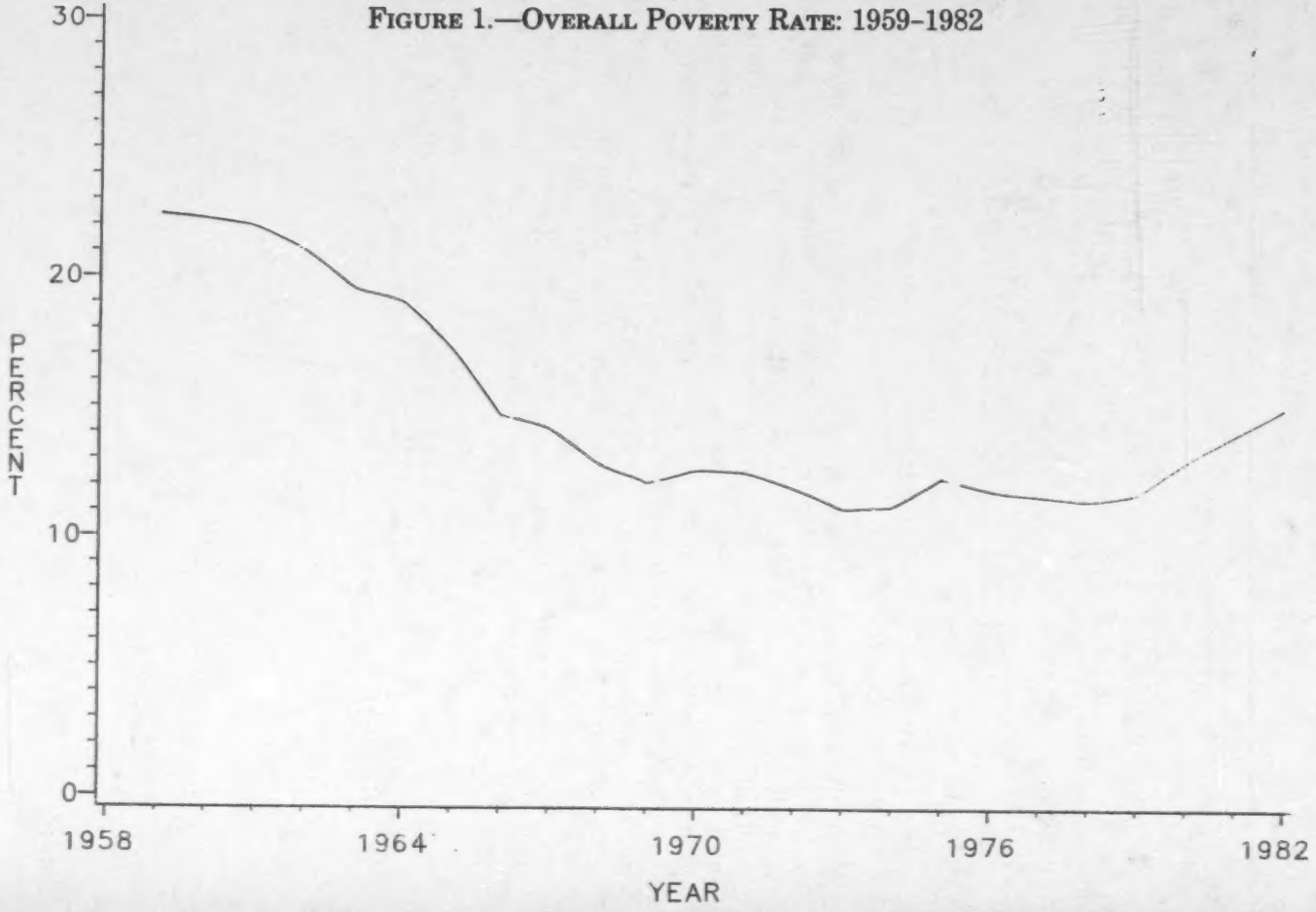
FIGURE 1.—OVERALL POVERTY RATE: 1959–1982



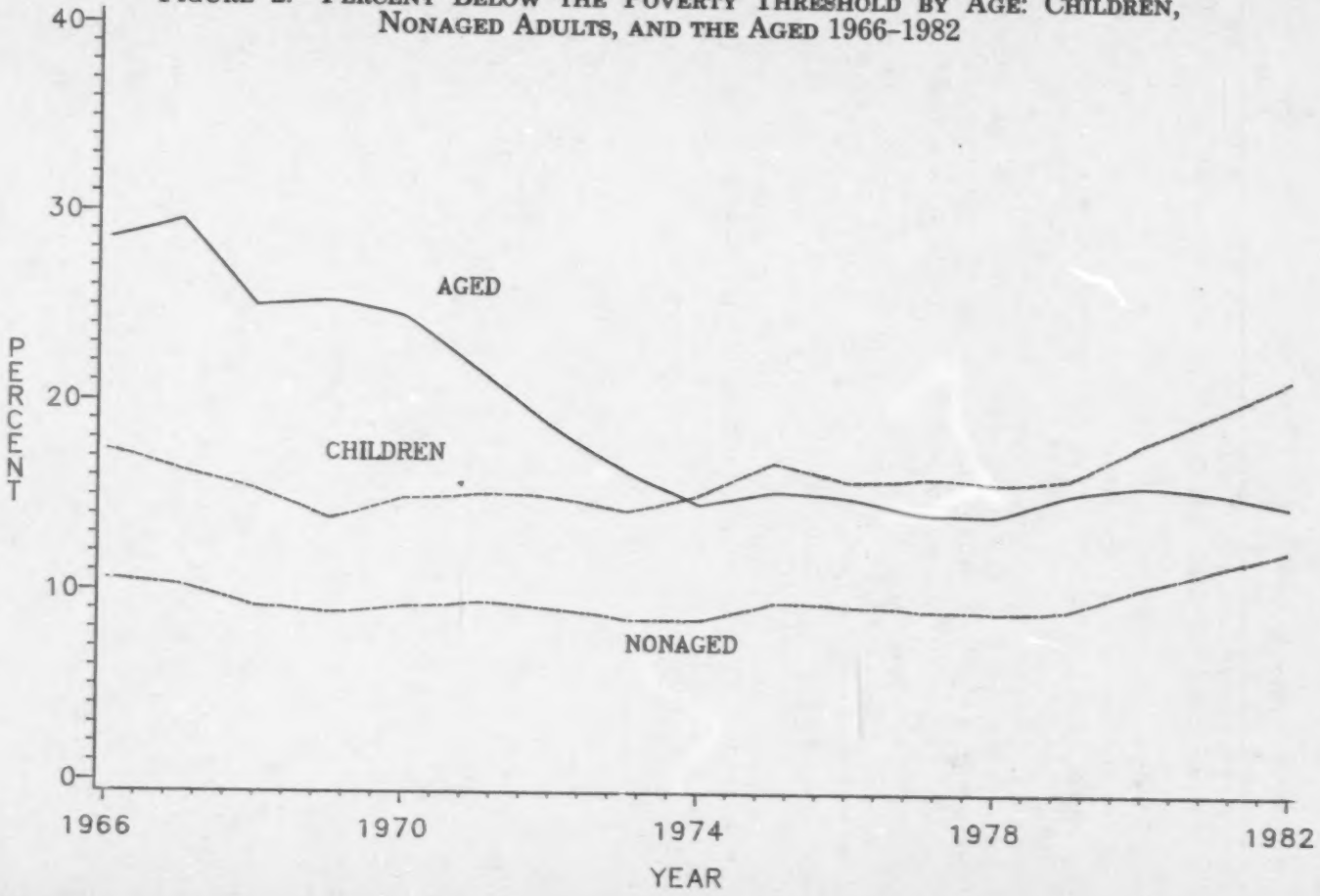
Trends Among Age Groups

Figure 2 compares the poverty rate for three age groups: The aged, children, and nonaged adults. Before 1974 the aged were the poorest of these groups. Since 1974 the rate of poverty for children has been higher than that of the other groups. The poverty rate for nonaged adults has consistently been lower than the other two groups, although it recently has been increasing.

More specifically, in 1982 for the first time, the poverty rate of the aged—14.6 percent—was not significantly different from the overall rate of 15 percent. Before 1982 the poverty rate for those over 65 had been much higher than the overall rate. For example, between 1966 and 1981 the share of the aged who were poor ranged from a high of 29.5 percent in 1967, to a low of 14 percent in 1978. The rate of poverty among the total population ranged from 14.7 percent to 11.1 percent.

Between 1959 and 1974 the incidence of poverty among the aged was cut by more than half, from 35.2 percent to 14.6 percent. Since 1974 the poverty rate of the aged has remained around 15 percent, dipping in 1977 and 1978 to 14.1 and 14 percent respectively. Part of the reason for the maintenance of the poverty rate for this group at this level, despite numerous changes in the economy, is that social security was indexed for inflation and supplemental security income (SSI) was introduced beginning in 1974.

FIGURE 2.—PERCENT BELOW THE POVERTY THRESHOLD BY AGE: CHILDREN, NONAGED ADULTS, AND THE AGED 1966–1982



Since 1974, of these groups, children have had the highest poverty rate. In 1982 the poverty rate for children was 21.3 percent. This is the fourth consecutive increase in the poverty rate for this group. Since 1978 the rate has increased 5.6 percentage points—a 36-percent increase.

Between 1959 and 1969, the poverty rate for children was cut in half. Since 1969, the year of the lowest rate for this age group, there has been a general upward trend in the rate. The greatest increase in this rate occurred in the 1978 to 1982 period. In 1982 the poverty rate among children was 54 percent higher than in 1969.

The high incidence of poverty among children in female headed families with an absent husband [2] accounts for a large proportion of poverty among children as a group. While 13 percent of children in other families were poor in 1982, children in families with a female head had a poverty rate of 56 percent. This disparity persisted throughout the entire period. The rate of poverty for children in female-headed familes did not fall below 48 percent in this period; but the rate of poverty for children in other families never exceeded 23 percent.

The poverty rates for both female-headed families and all other families declined substantially between 1959 and 1966. The poverty rate for children in families with a female head declined 20 percent; the rate other families declined 43.8 percent. Even though there was a substantial decline in the rates, in 1966 the rate for children in families with a female head was about six times that of other families. The rates continued to decline until 1978. In 1978 the poverty rate for children in families with a female head was at its lowest level, 48.6 percent. The rate for children in other families reached its low point of 7.6 percent in 1973. Since 1978 both of these rates have been increasing.

[2] Hereafter referred to as female headed families.

FIGURE 3.—PERCENT OF CHILDREN BELOW THE POVERTY THRESHOLD BY TYPE OF FAMILY HEAD: 1959–1982

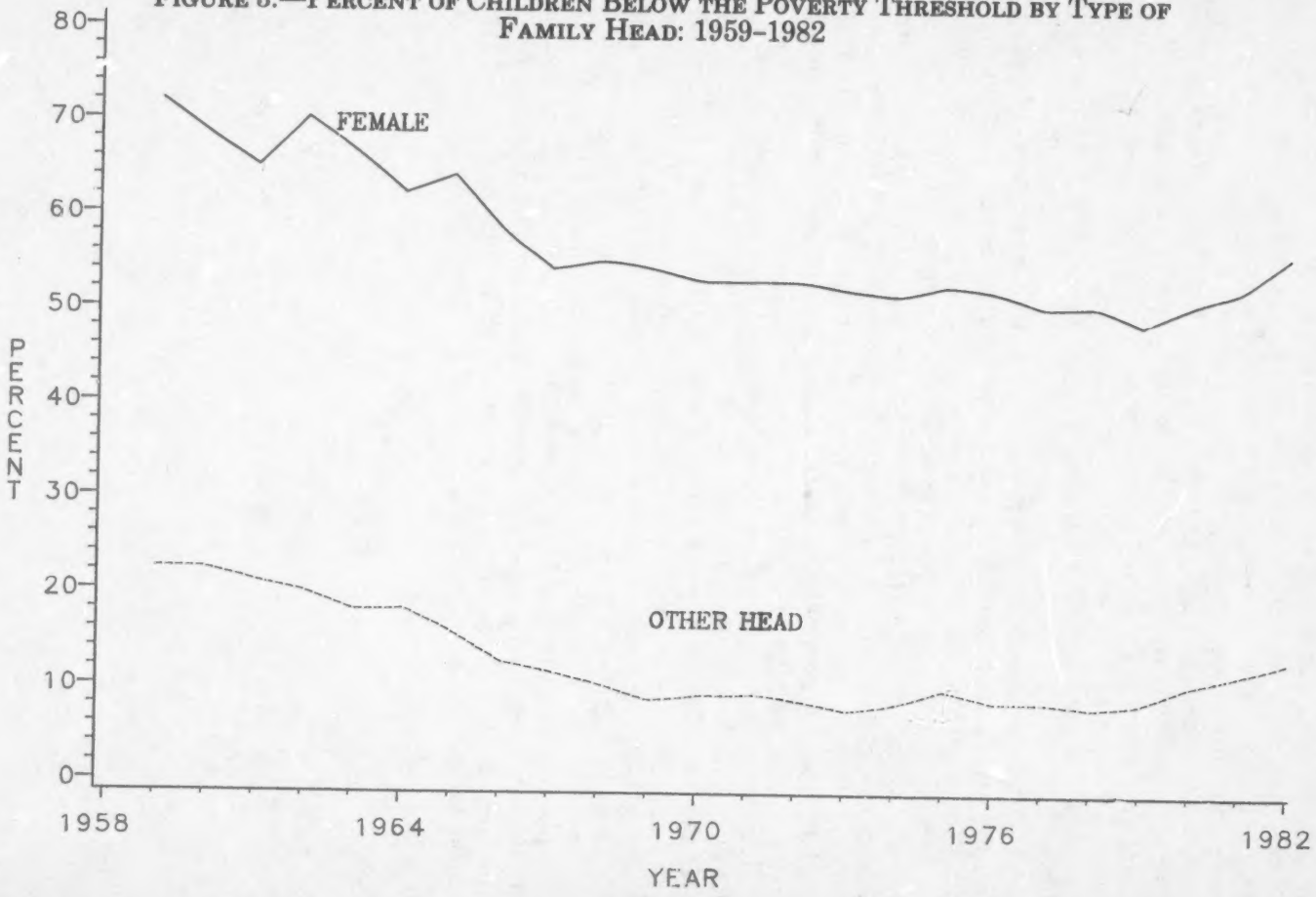
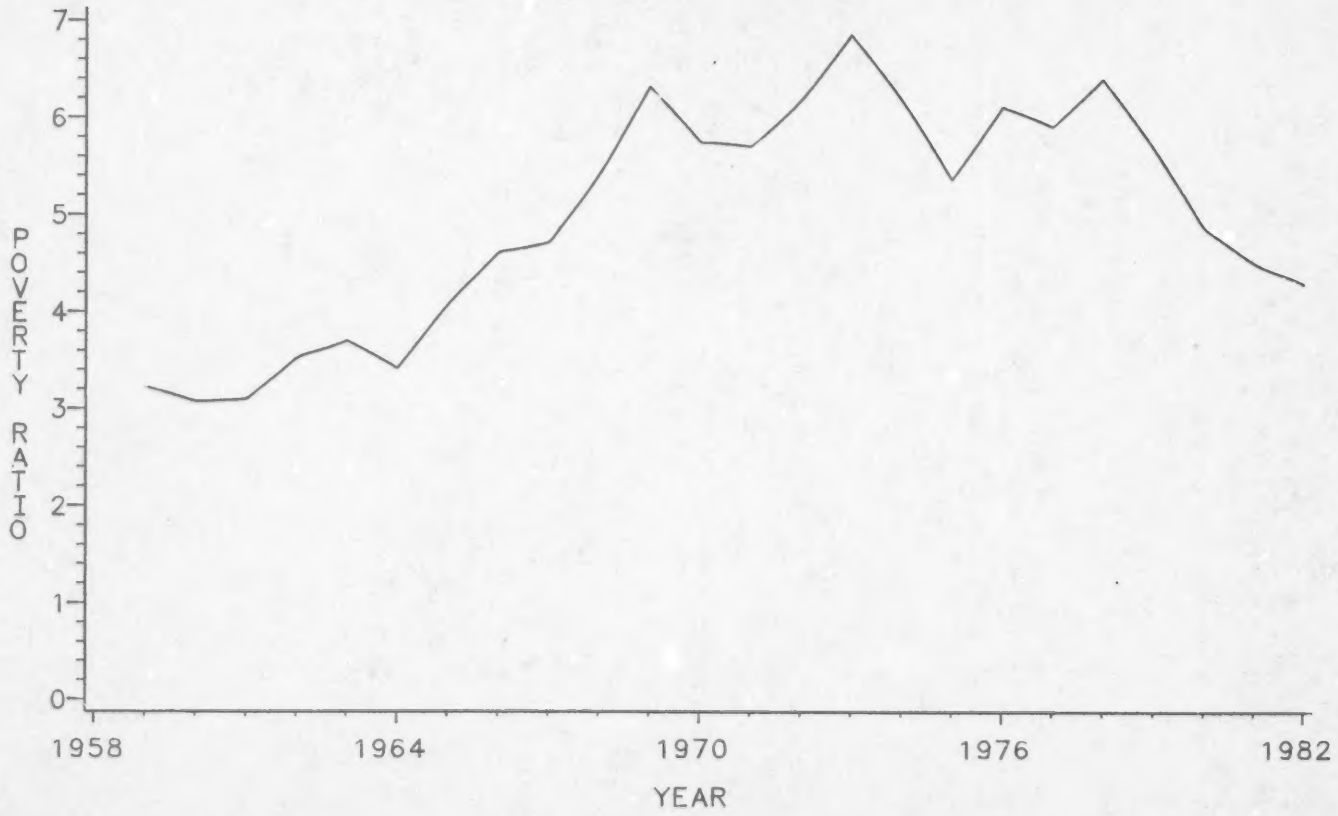


FIGURE 4.—RATIO OF POVERTY RATE OF CHILDREN IN FAMILIES WITH A FEMALE HEAD TO CHILDREN IN OTHER FAMILIES



The incidence of poverty among nonaged adults, while smaller than for other groups, has recently been increasing. The poverty rate among nonaged adults increased from 8.8 percent in 1979 to 12.3 percent in 1982. The rate for this group, which makes up a large share of the labor force, seems to be influenced by economic cycles. Upward swings in this rate appear in 1971, 1975, and 1979–82, years closely coinciding with recession periods.

Composition of Poverty by Family Type

Until 1978, persons in families with a female head represented a growing share of the poverty population. In 1959, persons in these families represented 26.3 percent of the total poverty population; by 1978 the percentage rose to 52.6 percent. Since 1978 the percentage has dropped to 47.5 percent. The reason for this recent decline is not that people in families with a female head are any less likely to be poor than in earlier years. (The contrary is true, see below.) Rather, other families are experiencing a higher poverty rate than in the middle seventies. The result of this increase in the other family rate coupled with their larger share of the total U.S. population reduces the percentage share of the poor who are individuals in families with a female head. Yet the number of these individuals is still increasing. Between 1978 and 1982 there has been a 3.5-million increase in the number of individuals in families with a female head who have incomes below the poverty threshold.

The size of this growth is best seen by comparing the percentage of individuals in the overall population who are in families with a female head to the percentage of individuals in poverty who are in families with a female head (see figures 5 and 6). The people in families with a female head in the United States increased by 50 percent over this time period. In 1959 people in female-headed families made up about 12 percent of the total population. This share increased steadily to about 18 percent in 1982. The percentage of individuals within the poverty population living in female-headed families increased over this time period by close to 100 percent.

FIGURE 5.—COMPOSITION OF PEOPLE BELOW THE POVERTY THRESHOLD BY TYPE OF FAMILY HEAD: 1959–1982

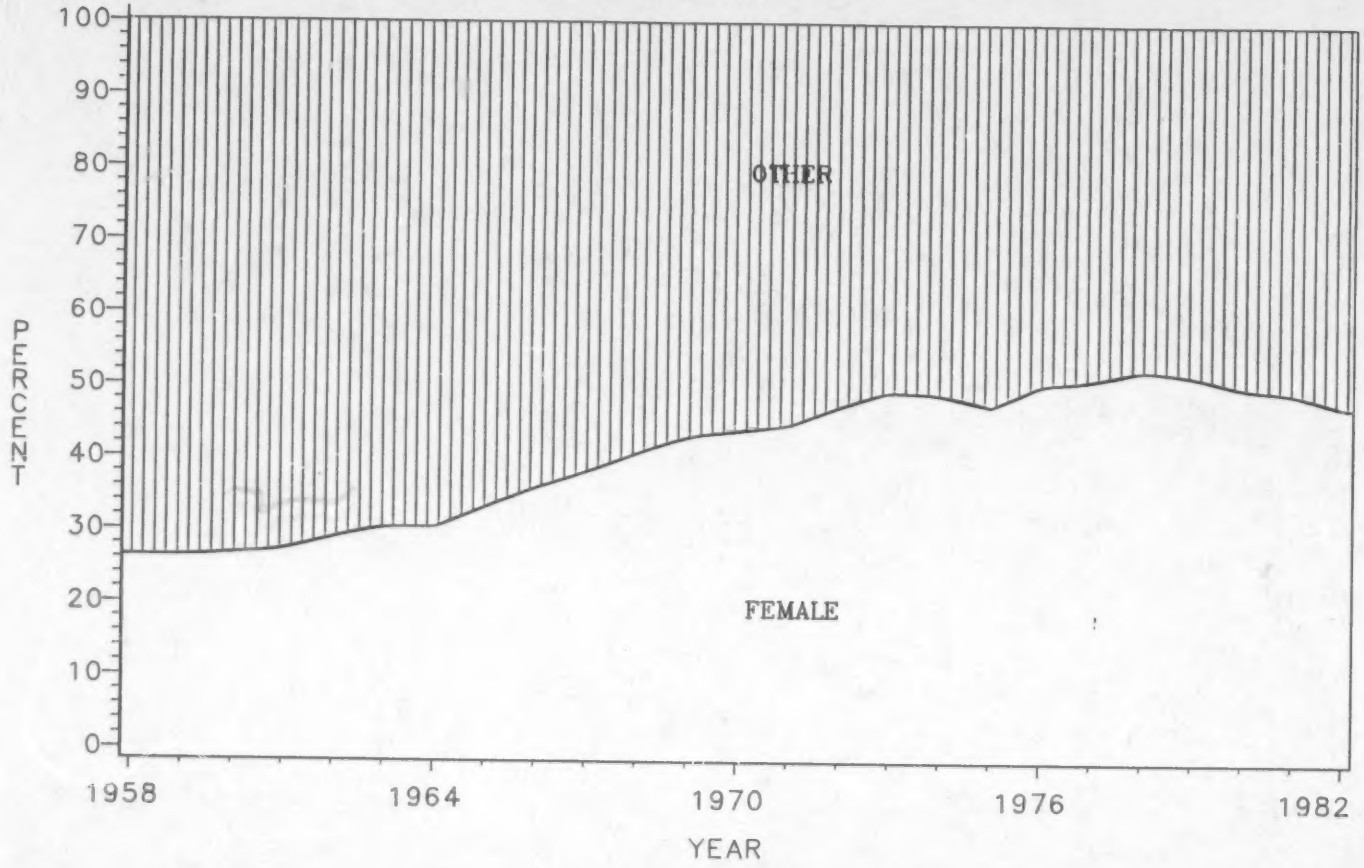
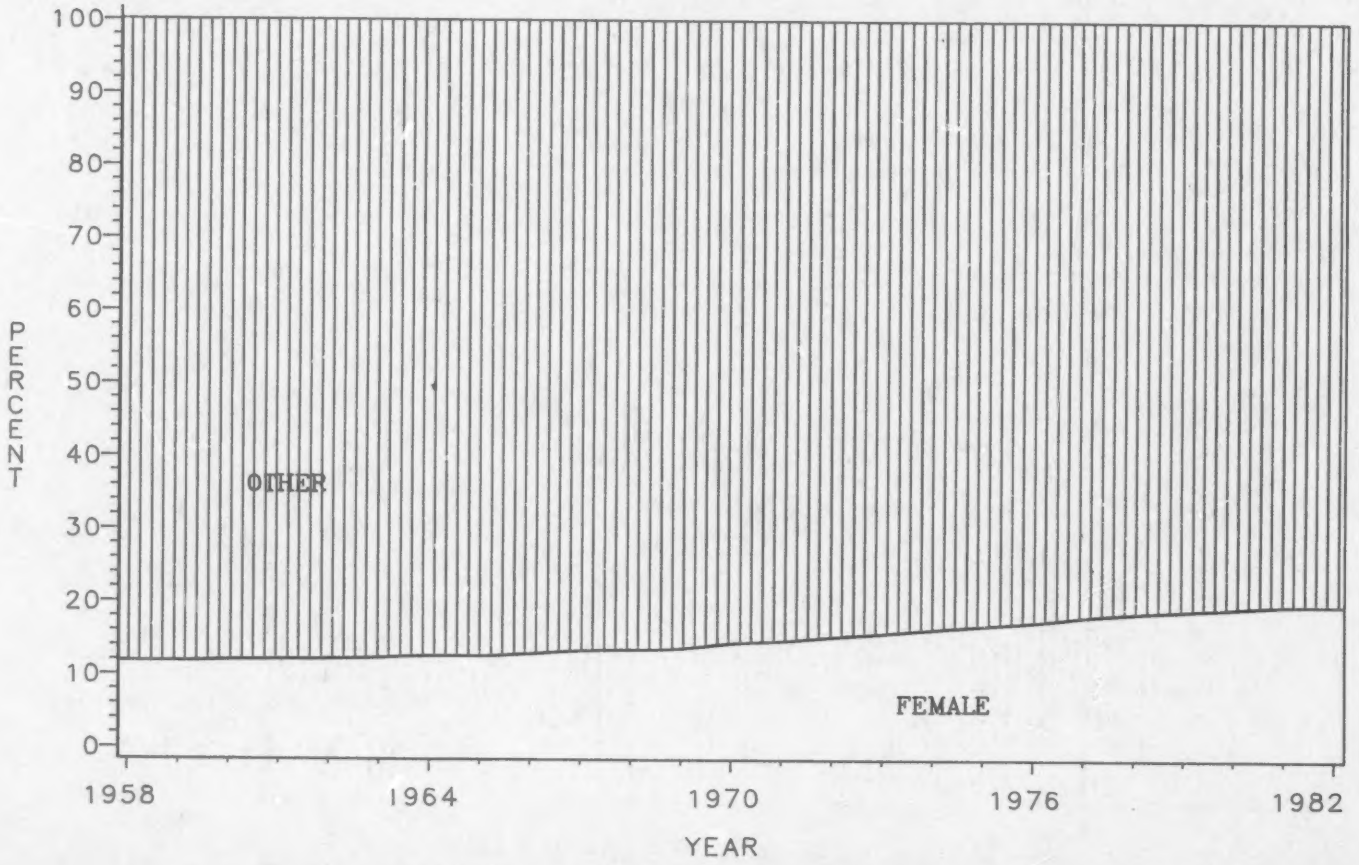


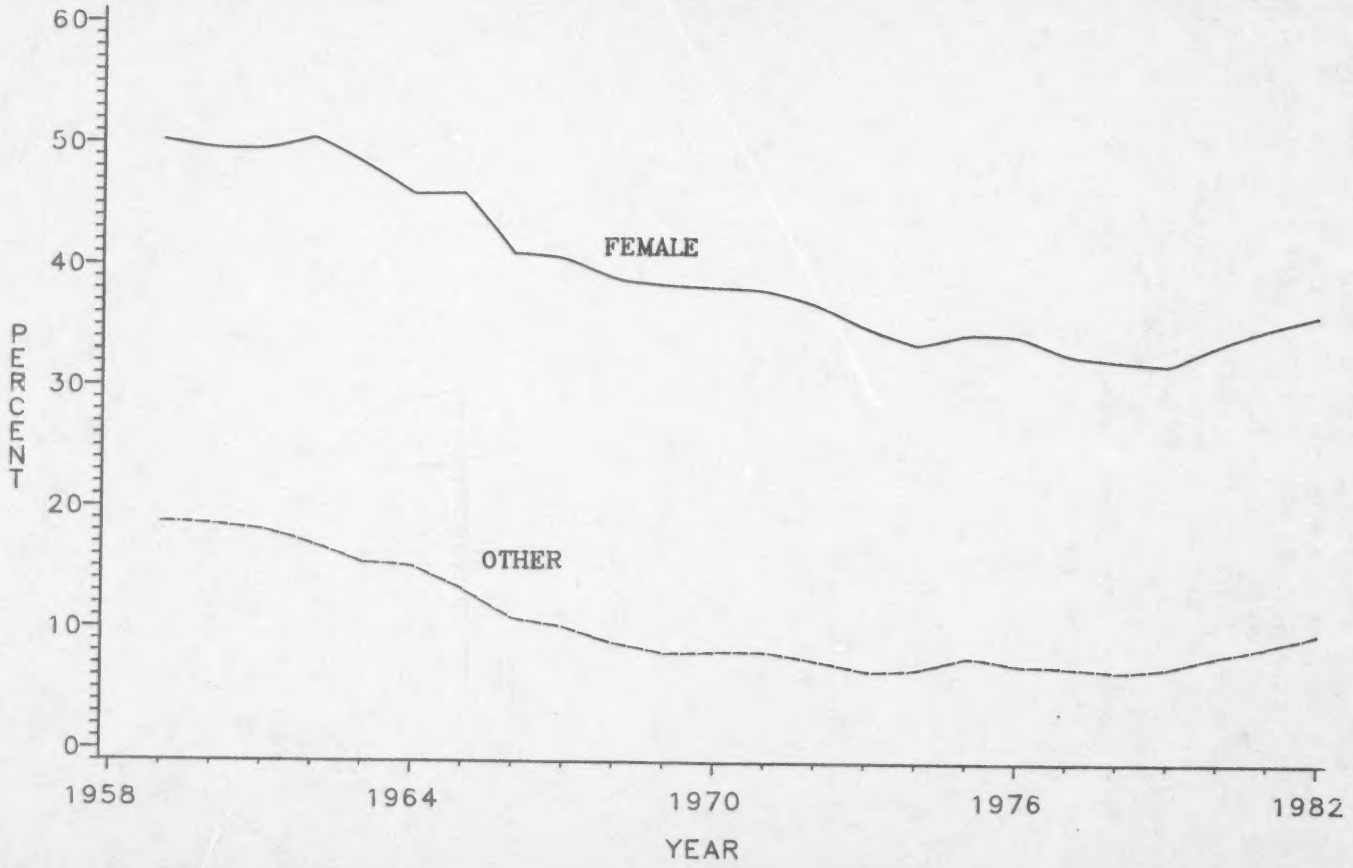
FIGURE 6.—COMPOSITION OF U.S. POPULATION BY TYPE OF FAMILY HEAD: 1959–1982



In 1959, the poverty rate for people in families with a female head was about 2.7 times that of other families. During that year the rate for families with a female head was 50.2 percent, while the other family rate was 18.7 percent. By 1973 the ratio of the poverty rate for families with a female head to the poverty rate of other families increased to 5.3. By 1982, the ratio declined to 3.7.

The poverty rate for female-headed families was at its highest point in 1962, at 50.5 percent, and the rate generally declined until 1979, when it reached its low point of 32 percent. Since 1979 the rate has increased by 4.2 percentage points. This is a 13-percent increase over the 3-year period.

FIGURE 7.—PERCENT BELOW THE POVERTY THRESHOLD BY TYPE OF FAMILY HEAD: 1959–1982



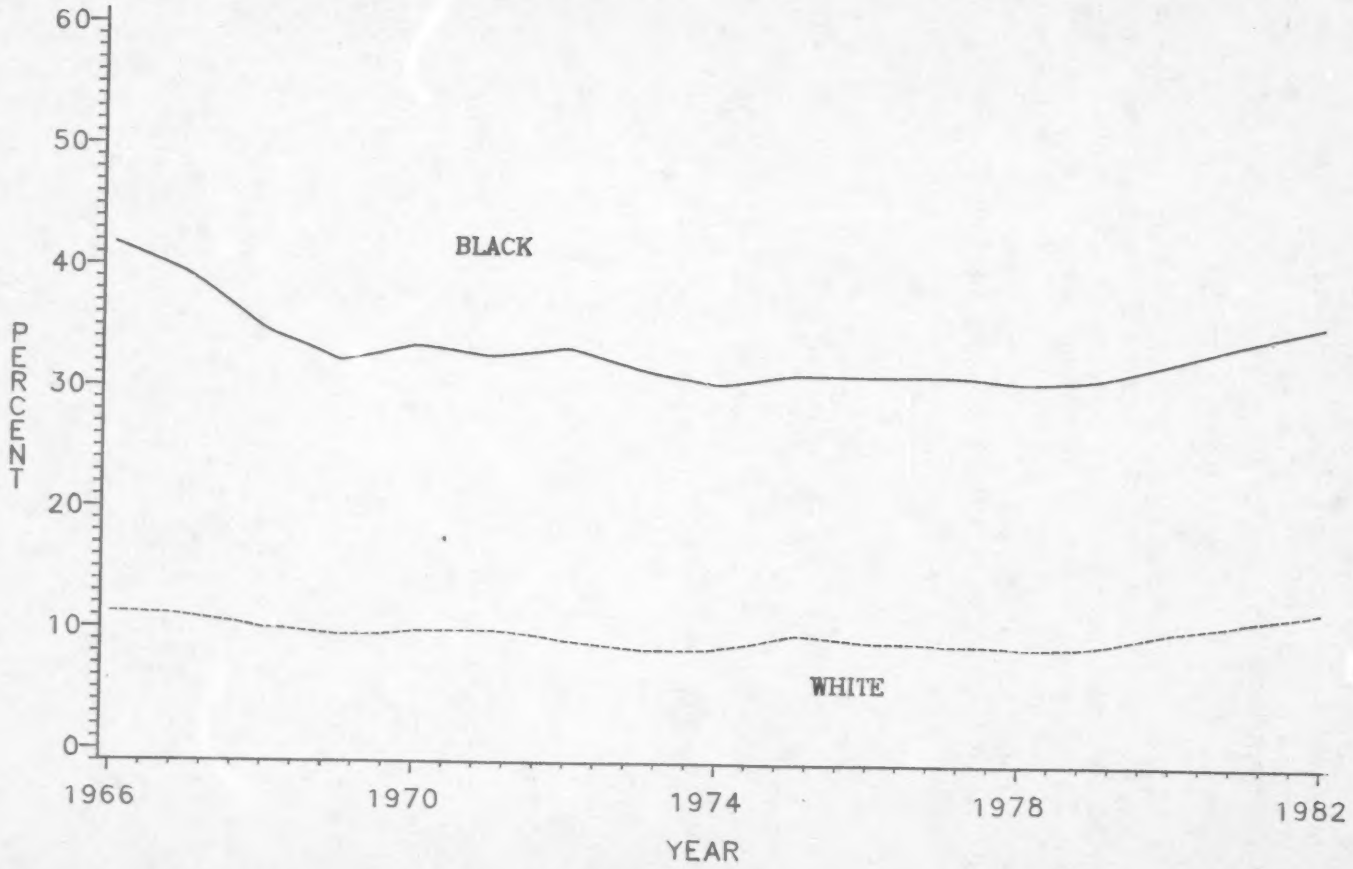
The poverty rate for people in other families has consistently been lower than the overall poverty rate. This group's incidence of poverty was at its lowest in 1973, when the rate was 6.6 percent. Between 1973 and 1982 the rate rose to 3.2 percentage points—a 48.5 percent increase.

Trends in Poverty by Race

In 1982, the rate of poverty for blacks was 35.6 percent, the rate of poverty for whites was 12 percent. Throughout the 1959–82 period the black poverty rate has been about three times the white rate. The poverty rate for blacks ranged between 55.1 percent and 30.3 percent over this period.[3] The rate for whites ranged between 18.1 percent and 8.4 percent. The lowest poverty rate for blacks (30.3 percent) occurred in 1974; the lowest rate for whites (8.4 percent) in 1973.

[3] The poverty rate for blacks was not available for the 1961–65 period.

FIGURE 8.—PERCENT BELOW THE POVERTY THRESHOLD BY RACE: 1966–1982



Section 5. FACTORS AFFECTING POVERTY

Wages are the biggest segment of personal income, and most money income poverty reflects lack of a family breadwinner, or subpoverty earnings of the worker. Contributing to poverty in recent years has been the failure of average wages to rise as fast as poverty thresholds, which are linked to the Consumer Price Index (CPI).

This section explores various factors that affect the incidence of poverty. Discussed are demographic changes and economic trends over time, the effectiveness of various cash and near-cash income sources in reducing poverty in fiscal year 1982, the recent climb in poverty, and Federal budget expenditures and the poor.

The section also presents an analysis of selected major benefit programs: aid to families with dependent children (AFDC), supplemental security income (SSI), earned income tax credit (EITC), veterans' pensions, food stamps, unemployment compensation (UC), social security, and public service employment (no longer in operation).

For each of the income-tested programs (the first five above) this section examines the relationships between poverty and the program's benefit levels, eligibility limits, and rules about treatment of earnings. It also examines the impact upon poverty of social security and unemployment compensation.

Two groups that are not expected to work, those over 65 and those under 18, are the age groups with highest rates of "pre-transfer" poverty. Before they received work-related benefits (retirement, disability, survivors' or unemployment benefits) and/or need-tested cash benefits, 62.3 percent of the aged and 26 percent of children were classified as poor in 1982. After payment of work-related benefits and cash welfare, these poverty rates were reduced to 14.6 percent for the aged and 21.3 percent for children.

Population Growth and New Household Formulation

The population of the United States increased by 31.1 percent between 1959 and 1982. Over this period, the number of households increased by 63.2 percent. The number of households grew twice as fast as the total population for a number of reasons, including a growing divorce rate, a declining birth rate (both discussed below), a drop in average household size, and the baby boom reaching an age for forming new households.

Between 1970 and 1982, the number of households increased by 20.1 million. Of these, 47.5 percent were married couple households, 45 percent were single-parent households headed by a female, and the remaining 7.5 percent were single-parent households headed by a male.

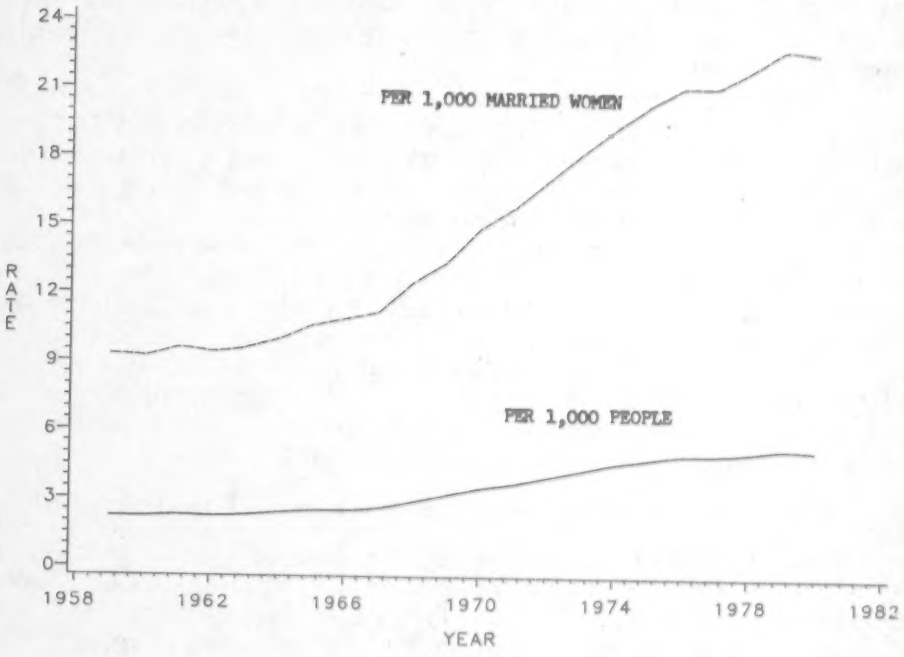
Families with a female head accounted for 83 percent of the rise in the number of single-parent families between 1970–1982. Over the last 12 years, the number of female-headed families increased by 70.9 percent.[1]

Divorce rate

The 1980 divorce rate, the latest available final figure, was 5.2 per 1,000 population. This 1980 figure represents the first decline in the overall rate since 1962. In 1960 the rate was 2.2 per 1,000 people. Between 1962 and 1980, the rate increased every year except 1966 and 1977. The rate reached a record high of 5.3 in 1979.[2]

The divorce rate for married women 15 years of age and over also dropped slightly between 1979 and 1980.[3] Between these years the rate declined from 22.8 per 1,000 married women in 1979 to 22.6 per 1,000 married women in 1980. Like the overall rate, this was the first decline in the divorce rate since 1962. Figure 1 shows the trend in the overall divorce rate per 1,000 persons and the divorce rate for married women.

FIGURE 1.—DIVORCE RATES 1959–80



[1] U.S. Bureau of the Census. Current Population Reports, Series P-20, No. 381. Household and Family Characteristics: March 1982.

[2] Provisional data indicates that in 1981 the rate increased to 5.3, but in 1982 it dropped to 5.1.

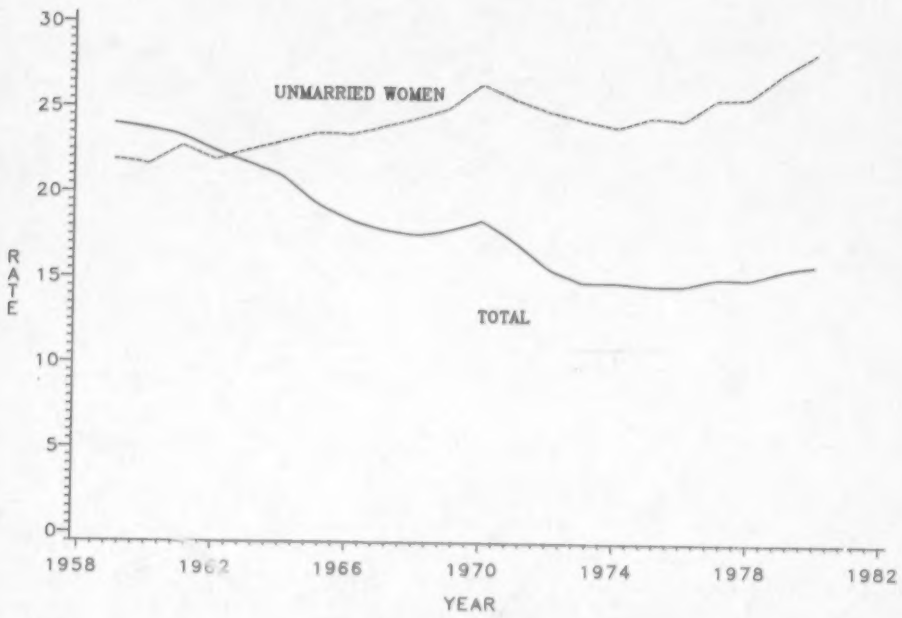
[3] The 1979 rate for married women does not incorporate revised population estimates while the 1980 does. These unrevised rates tend to be higher than the revised rates. This may be the cause of the drop in the rate from 1979 to 1980.

Birth rate

Since 1959 birth rates have steadily declined. In 1959 there were 24.0 births per 1,000 people. In 1980 this rate was 15.9 percent. This is a 33.8 percent drop in the rate. The only years over this period in which the rate did not decline were 1969, 1970, 1977, and 1979.

Contrary to this overall trend, the birth rate for unmarried women has increased over the 21-year period. In 1959 the birth rate was 21.9 per 1,000 unmarried women; in 1980, this rate was 28.4. Between 1972 and 1976 the general upward trend in this rate was reversed. Since 1976, however, the rate has increased 16.9 percent.

FIGURE 2.—BIRTH RATES 1959–80



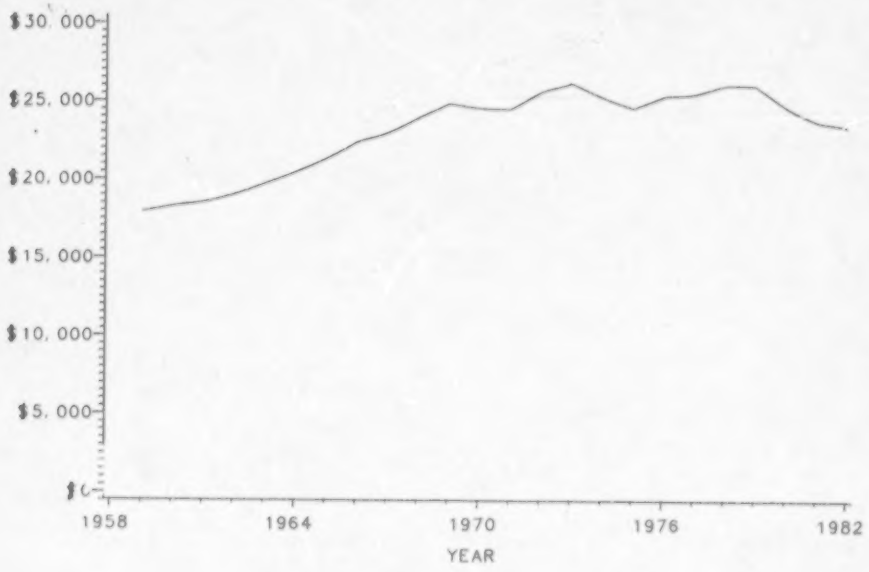
ECONOMIC TRENDS

The incidence and number of people in poverty are directly affected by the state of the economy. The purchasing power of families is influenced by inflation, while the growth of the economy may determine whether family members are employed. To better understand the interrelationships, an examination of certain economic data is helpful. Accordingly, trends in median family income, the consumer price index, the unemployment rate, and the gross national product from 1959 to 1982 are described below. To control for inflation, the dollar amounts used throughout this section are reported as 1982 constant dollars.

Median family income

For the third year in a row, median family income decreased after adjustment for inflation. The 1982 median family income of $23,433 represented a decline of 1.4 percent from the 1981 amount. This is a smallest decline for the past 3 years. From 1979 to 1980, the median amount declined by 5.5 percent, and from 1980 to 1981, the median amount declined 3.5 percent. In 1982 median family income was at its lowest level since 1967 (Figure 3).

FIGURE 3.—MEDIAN FAMILY INCOME IN CONSTANT 1982 DOLLARS



The 1982 median family income for individuals in black families, while not significantly different from 1981, was substantially lower than the median family income for individuals in white families. In 1982, the median family income for blacks was $13,599 while the median family income for whites was $23,517. In 1960, the real family income for whites was 1.8 times that of blacks. By 1970 this ratio had declined to 1.6. Since 1970 it has increased to its current 1.7 level.

Prices

From 1974 through 1981 there was a rapid increase in the price of goods measured by the Consumer Price Index (CPI) (see table 1). Between 1974 and 1981 the CPI grew at an annual average rate of 9.1 percent. This compares with a 3.6 percent annual average rate of increase for the 1959–1974 period.

TABLE 1.—CONSUMER PRICE INDEX

Year	Consumer Price Index (all items)	Percentage change in annual average Consumer Price Index
1959	87.3	0.8
1960	88.7	1.6
1961	89.6	1.0
1962	90.6	1.1
1963	91.7	1.2
1964	92.9	1.3
1965	94.5	1.7
1966	97.2	2.9
1967	100.0	2.9
1968	104.2	4.2
1969	109.8	5.4
1970	116.3	5.9
1971	121.3	4.3
1972	125.3	3.3
1973	133.1	6.2
1974	147.7	11.0
1975	161.2	9.1
1976	170.5	5.8
1977	181.5	6.5
1978	195.4	7.7
1979	217.4	11.3
1980	246.8	13.5
1981	272.4	10.4
1982	289.1	6.1

Source: "Economic Report of the President," February 1983.

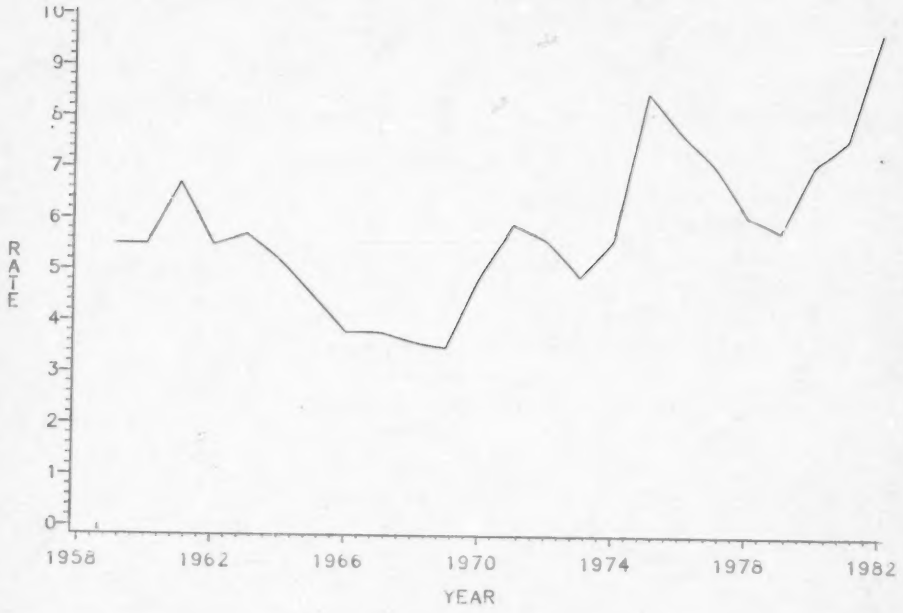
The 6.1 percent annual change in the Consumer Price Index between 1981 and 1982 represents the smallest change since 1974–1975. But this 6.1 percent annual change is still greater than any single annual change between 1959 and 1972.

Unemployment

In 1982 approximately 10.7 million persons, or 9.7 percent of the civilian labor force were unemployed. Since 1979, the overall unemployment rate has increased 3.9 percentage points, a 67.2 percent increase. The unemployment rate was at its lowest in 1969, a year when the overall poverty rate stood at 12.1 percent.

Since 1974, the unemployment rate has generally been higher than it was in the sixties. Only in 1979, when the rate was 5.8 percent was it lower than in the sixties and early seventies. As a result, the unemployment rate over the period from 1958 to 1962 shows a general upward trend with peaks and troughs.

FIGURE 4.—UNEMPLOYMENT RATE



Gross national product

The gross national product (GNP) is an aggregate measure of the level of production within the United States. Table 2 shows the trend in this measure, expressed in constant 1982 dollars, from 1959 to 1982. The GNP reached its highest level in 1981. Between 1959 and 1981, the GNP increased by approximately 106 percent. The growth in the GNP was fairly steady between 1959 and 1969. This general upward trend continued through the later period, but was disrupted by recessions in 1970, 1974, 1975, 1980, and 1982.

Between 1981 and 1982 the real gross national product declined by 1.9 percent. This decline was about equal to the 1.8 percent decline occurring between 1973 and 1975, and was considerably larger than the .2 percent decline between 1969 and 1970, or the .3 percent decline between 1979 and 1930.

TABLE 2.—GROSS NATIONAL PRODUCT USING CONSTANT 1982 DOLLARS [1]

[Dollars in billions]

Year	Gross national product	Year	Gross national product
1959	$1,493	1971	$2,322
1960	1,525	1972	2,453
1961	1,565	1973	2,595
1962	1,655	1974	2,578
1963	1,722	1975	2,548

TABLE 2.—GROSS NATIONAL PRODUCT USING CONSTANT 1982 DOLLARS [1]—Continued

[Dollars in billions]

Year	Gross national product	Year	Gross national product
1964	1,813	1976	2,686
1965	1,923	1977	2,834
1966	2,038	1978	2,976
1967	2,092	1979	3,061
1968	2,189	1980	3,051
1969	2,250	1981	3,132
1970	2,246	1982	3,073

[1] Constant dollars computed using implicit price deflator for gross national product.

Source: 1959–78 data obtained from "Economic Report of the President," February 1983; 1979–82 data obtained from "Survey of Current Business," July 1983, vol. 63, No. 7.

The Recent Rise in Poverty

This report examines the changes that have taken place in the size of the poverty population over the past several years, and focuses on the increase in the poverty rate since 1978. During this time, the country was experiencing a recession characterized by a sharp increase in the unemployment rate. Also, beginning in fiscal year 1982, major reductions were made in programs providing income support to low-income families. While there has been some empirical evidence and agreement that both the increase in unemployment and the reduction in income support programs contributed significantly to the rise in the number of families with incomes below the poverty line, the size of the effect and the separate effects of high unemployment and program reductions on the poverty rate are not known. For example, to what extent would the recession and high unemployment alone have increased the poverty rate had there been no changes in income support programs, and to what extent would program reductions be reflected in the poverty rate if the economy had remained healthy?

A study is currently being prepared by Mathematica Policy Research (MPR) for the Congressional Research Service that explores the potential effects that each of these types of changes could have on the poverty rate. The MPR study uses two simulated databases. Both databases represent the demographic characteristics of the U.S. population in fiscal year 1982. One database represents actual recessionary economic conditions of fiscal year 1982. The other simulates a healthier fiscal year 1982 economy than actually existed. On both databases pre- and post-OBRA program rules were applied to determine eligibility and benefits for means-tested programs (principally AFDC). This procedure will permit the combined and independent effects of recession and program changes to be analyzed. However, because the population base for each data base is the same (fiscal year 1982), the analysis will not provide true estimates of change between fiscal years 1981 and 1982.

In the simulated data bases, the pre-recession unemployment rate is 7.1 percent, and the high unemployment rate, representing real fiscal year 1982 average unemployment, is 9.1 percent. The changes in income support programs that occurred during fiscal year 1982 are those that were included in the Omnibus Budget Reconciliation Act of 1981 (OBRA). Specifically, legislative changes to aid to families with dependent children (AFDC) were modelled. AFDC is a means-tested program providing benefits to families who have children and who meet the definitions of low income established by the States. Therefore, AFDC is a program that has a major impact on the incomes of the poor and near-poor. While there were changes in other programs providing government cash benefits to families and individuals, such as social security disability benefits, trade-adjustment assistance, and unemployment compensation, the changes in these programs were not included in the simulations because the nature of the changes made were either in administrative procedures or in program rules that could not be replicated in a mathematical model. Although unemployment compensation changes were not specifically simulated, total benefits paid were controlled to conform to actual fiscal year 1982 benefits on the high unemployment rate, post-OBRA database. An estimate of fiscal year 1982 benefits without OBRA changes was used on the pre-recession pre-OBRA database. This would have the effect of depressing the incomes of unemployed persons on the high unemployment rate simulated database.

Preliminary results of the study indicate that both increased unemployment and the OBRA AFDC program changes significantly increased the poverty population. The data indicate that increased unemployment was the more important of the two factors. Taken together the study shows that increased unemployment, reduced unemployment compensation benefits, and the OBRA AFDC program changes explain the majority of the increase in the poverty rate between 1981 and 1982.

Although preliminary, the results appear reasonable. The effects on subgroups of the population, such as married couple families, female-headed families, and children, are in accord with prior expectations. (For example, the recession has a greater impact on married couple families than female-headed families because of the former group's stronger attachment to the labor force.) However, these are preliminary results and further analysis is underway.

Antipoverty Effectiveness of Various Cash and Near-Cash Income Sources

This section explores the effectiveness of various income sources in addressing poverty. As shown in section 3, families differ markedly by the combinations of income upon which they rely for support. For example, families with an aged member and aged unrelated individuals typically rely upon a combination of income from social security, pensions, returns on investments and savings, as well as earnings. In combination, these sources offer the potential for income support above the poverty threshold. However, as the sole source of income support, none of these sources may be deemed adequate.

One way of assessing the anti-poverty effectiveness of various income sources is to estimate the number of persons who would be counted as poor if a particular source of income were not received (table 3). The additional number of persons that are counted as poor provides an estimate of the number of people lifted out of poverty by a particular income source. For example, the effect of social security upon poverty can be seen by comparing the number who would be counted as poor if they did not receive social security, with the number of poor after social security income is counted.

Another way of assessing the effectiveness of various income sources upon poverty is by estimating the degree to which those sources reduce the gap between a poor family's income and the poverty threshold (table 4). This concept is sometimes known as the "poverty gap" or the "poverty income deficit." A cash transfer program which is highly targeted on the poor may do little to eliminate poverty—that is, to reduce the number who are counted as poor—but such a program may still have a very real impact by reducing the degree of poverty as viewed in terms of the poverty gap.

Tables 3 and 4 show the relative antipoverty effect of various income sources in 1982, upon children, nonaged adults, and the aged. Table 3 shows the estimated number of poor persons and the poverty rate which would result under various income definitions. For example, the first column shows the number of persons who were poor, and the poverty rate, in 1982. The second column shows how many persons would be poor if they had only earnings and miscellaneous sources of income (interest, dividends, alimony and child support) upon which to depend. Similarly, the third column shows how many persons would be counted as poor if they had all sources of income currently available to them, except for social security and railroad retirement. The relative effect of each source can be seen by comparing the number in poverty under the alternate income definitions with the first column. For purposes of illustration, the cash value of food stamps is also included, even though food stamps are not included as income under the existing official definition of poverty. Table 4 is similar to table 3, except that it shows the aggregate poverty gap (in millions of dollars) and average poverty gap [4] per poor person. The aggregate poverty gap is the amount of dollars that would be required to give all persons in poverty an income equal to the poverty line.

[4] The average poverty gap per poor person is the total family poverty gap divided by the number of family members. Since poverty is based on a family income definition, completely filling the poverty gap for children, for example, would not remove all children from poverty, since the poverty gap for other family members would have to be reduced as well.

TABLE 3.—PERSONS IN POVERTY UNDER VARIOUS INCOME CONCEPTS, BY AGE GROUP: 1982

	Total income official poverty measure	Only earnings, dividends, interest, and misc. income	Total income less—				Total income plus—food stamps
			Social security railroad retirement	Pensions	Unemployment compensation, workers compensation, veterans pension	AFDC, SSI, general assistance	
Total (in thousands)	34,398	57,495	48,230	36,853	37,619	36,539	32,734
Children (less than 18)	13,647	16,214	14,536	13,855	14,603	14,284	12,905
Persons age 18–64	17,000	25,238	20,642	18,404	18,894	18,061	16,185
Persons age 65 and over	3,751	16,043	13,053	4,594	4,122	4,194	3,643
Total (percent)	15.0	25.1	21.0	16.1	16.4	15.9	14.3
Children (less than 18)	21.9	26.0	23.3	22.2	23.4	22.9	20.7
Persons age 18–64	12.0	17.9	14.6	13.0	13.4	12.8	11.5
Persons age 65 and over	14.6	62.3	50.7	17.8	16.0	16.3	14.2
Total (percent change)			−28.7	−6.7	−8.6	−5.9	−4.8
Children (less than 18)			−6.1	−1.5	−6.5	−4.5	−5.4
Persons age 18–64			−17.6	−7.6	−10.0	−5.9	−4.8
Persons age 65 and over			−71.3	−18.3	−9.0	−10.6	−2.9

TABLE 4.—POVERTY GAP UNDER VARIOUS INCOME CONCEPTS, BY AGE GROUP: 1982

	Total income official poverty measure total income official	Only earnings, dividends, interest, and miscellaneous income	Total income less—				Total income plus—food stamps
			Social security, railroad retirement	Pensions	Unemployment compensation, worker's compensation, veterans pension	AFDC, SSI, general assistance	
Total aggregate poverty gap (in millions)	$43,826	$121,967	$84,169	$48,378	49,860	$59,010	$38,222
Children (less than 18)	15,136	25,525	17,304	15,490	16,572	21,209	12,077
Persons age 18–64	24,450	50,901	33,697	27,250	28,315	31,545	21,916
Persons age 65 and over	4,240	45,541	33,168	5,639	4,973	6,256	4,230
Total average gap per poor person [1]	$1,274	$2,121	$1,745	$1,313	$1,325	$1,615	$1,168
Children (less than 18)	1,109	1,574	1,190	1,118	1,135	1,485	936
Persons age 18–64	1,438	2,017	1,632	1,481	1,499	1,747	1,354
Persons age 65 and over	1,130	2,839	2,541	1,227	1,206	1,492	1,161
Total percentage change in aggregate gap			−47.9	−9.4	−12.1	−25.7	−12.8
Children (less than 18)			−12.5	−2.3	−8.7	−28.6	−20.2
Persons age 18–64			−27.4	−10.3	−13.7	−22.5	−10.4
Persons age 65 and over			−87.2	−24.8	−14.7	−32.2	−.2

[1] The average poverty gap per poor person is the total family poverty gap divided by the number of family members. Since poverty is based on a family income definition, completely filling the gap for children, for example, would not remove all children from poverty, since the poverty gap for other family members would have to be reduced as well.

The importance of the labor market, as the first tier of the Nation's income support system, is readily seen in table 3. Approximately 75 percent of the population have incomes above the poverty threshold on the basis of earnings [5] alone. Excluding all other sources of income, about 57.5 million persons, or 25 percent of the noninstitutionalized population could be counted as "earnings poor." Generally having little attachment to the labor market, a large portion of the aged could be considered "earnings poor"—about three-fifths (62.3 percent) would have incomes below poverty simply on the basis of earnings alone. The aged, while accounting for about 11 percent of the total population account for about 28 percent of those who were "earnings poor".

Private and government pensions may be viewed as either deferred compensation, provided by employers, or as savings for retirement. Pension benefits are closely related to the labor market, usually being directly or indirectly related to years of service and wage and salary levels attained when individuals were working. Private and government pensions played an important role in reducing poverty among the aged. In 1982, about one-fifth of total pension benefits went to persons who were poor before they received them (see table 5). These benefits reduced the incidence of poverty among the aged by about 18 percent, and reduced the aggregate poverty gap by about one-quarter.

Social insurance programs provide a second tier of income support, helping to protect covered individuals from loss of work related income resulting from a number of specific risks, such as old age, unemployment, and work related disabilities. Social insurance programs are second only to earnings in terms of their efffect upon poverty. Among these programs, social security is the largest. In fiscal year 1982, social security outlays amounted to $154 billion. While only about 50 percent of social security payments [6] went to persons who were poor before they received them (the pretransfer poor), social security had the greatest impact upon reducing poverty other than earnings. Social security reduced the aggregate poverty gap for the population in half (47.9 percent) and by nearly 90 percent for persons age 65 and over. Social security income accounted for a drop in the poverty rate from 21.0 percent to 15.0 percent, a 28.7 percent drop. Its effect upon the aged was particularly dramatic—lifting approximately 9.3 million older persons out of poverty. Social security reduced the poverty rate among the aged from 50.7 percent to 14.6 percent—a reduction of 71.2 percent.

TABLE 5.—PERCENT OF TOTAL BENEFITS GOING TO THE POOR BEFORE AND AFTER RECEIPT OF BENEFIT: 1982

	Poor before receipt of benefit	Poor after receipt of benefit
OASDI, railroad retirement	49.4	9.8
Pensions	18.4	1.3

[5] Includes interest dividends, interfamily transfers, and other, miscellaneous sources.
[6] Includes railroad retirement.

TABLE 5.—PERCENT OF TOTAL BENEFITS GOING TO THE POOR BEFORE AND AFTER RECEIPT OF BENEFIT: 1982 —Continued

	Poor before receipt of benefit	Poor after receipt of benefit
Unemployment compensation, workers compensation, veterans payments	26.4	8.6
AFDC, SSI, general assistance	85.5	68.0
Food stamps	80.5	80.5

The pretransfer poor received about one-quarter of all unemployment compensation, workers compensation, and veterans payments. These benefits reduced the poverty rate from 16.4 percent overall to 15.0 percent—an 8.6 percent decline. In turn, these programs reduced the aggregate poverty gap by about 12 percent.

Compared to social security, public assistance cash transfers (aid to families with dependent children, supplemental security income, general assistance), which rely on a means test, are highly targeted on the poor. Approximately 86 percent of public assistance cash expenditures went to the pretransfer poor.[7] However, compared to social security, public assistance cash transfers had a much smaller impact upon eliminating poverty. Public assistance reduced the poverty rate only 0.9 percentage points—a 5.9 percent drop. The effect on the aged was much greater, reducing poverty among this group from 16.3 to 14.6 percent—a 10.6 percent drop. In spite of its comparatively small impact upon eliminating poverty, public assistance cut the aggregate poverty gap by about one-fourth, and for the aged, by nearly one-third. The effect of cash public assistance on the poverty gap was second only to social security.

The inclusion of food stamps for purposes of counting the poor would reduce the poverty rate from its present level of 15.0 percent, to 14.3 percent—a 4.8 percent decline. Food stamps reduced the aggregate poverty gap by 12.8 percent. The effect of food stamps upon reducing poverty was larger for the nonaged, than for the aged. In 1982, about 80 percent of all food stamp expenditures were received by the poor.

Federal Budget Expenditures and the Poor

Federal spending for human resources reaches the poor and near-poor through four types of programs. First are the social insurance programs which provide cash benefits regardless of income level, (non-needs tested), and which impact a great number of poor or near-poor people. Social security and unemployment compensation are programs of this type. Second is medicare, a health insurance program providing noncash assistance, regardless of income level. Third are cash benefit programs directly targeted to those in-

[7] Because the annual accounting period used for estimating poverty from the Current Population Survey (CPS) differs from that used for determining program eligibility and benefits, families that received welfare payments would not necessarily have to be poor on an annual basis. Also, families, as defined by the CPS might differ somewhat from the AFDC filing unit.

dividuals with low incomes (needs tested). Aid to families with dependent children (AFDC), supplement security income (SSI), and non-service-connected veterans pensions fall into this category. Finally, low income individuals can receive noncash benefits in the form of food stamps, housing assistance, and medicaid.[8]

The following graphs portray the Federal budget outlays for fiscal years 1963–1982 for major programs affecting income levels of the poor and near-poor. All spending information refers to budget outlays corresponding to actual Federal spending in a given year. State expenditures for these programs are not provided. All spending information is presented using constant 1982 dollars in order to control for inflation.[9]

Cash benefit programs:

Nonneeds tested.—Social security; unemployment compensation.

Needs tested.—Public assistance payments[10]; non-service-connected pensions; supplemental security income.

Noncash benefit programs:

Nonneeds tested.—Medicare.

Needs tested.—Medicaid; subsidized housing payments; and food stamps.

Using constant 1982 dollars, total outlays for these nine programs increased 343 percent between fiscal year 1963 and fiscal year 1982. In 1963, noncash benefit program outlays made up 1.5 percent of the total outlays. But by fiscal year 1982, due to the emergence of medicaid and medicare, and to the expansion of the food stamp and housing assistance programs, noncash benefit outlays made up 30.3 percent of the total. This indicates that more Federal outlays now go to the noncash programs than in 1968. Their benefits are not reflected in the statistical definition of poverty.[11]

Figure 5 demonstates the trend in constant 1982 dollar outlays for the noncash and cash benefit programs. The trend reflected in the totals suggests that cash benefit program outlays are substantially larger than noncash benefit program outlays. But, more importantly, noncash benefit program outlays have been growing at a faster pace. Since 1974, the cash benefit programs have grown 50.7 percent; during the same period, noncash programs have grown 113.8 percent.

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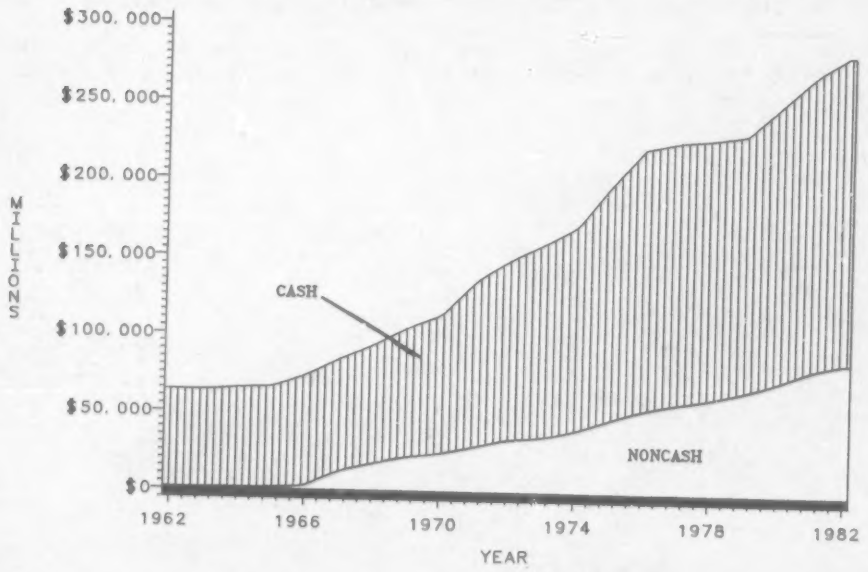
[8] For a detailed discussion of cash and noncash benefits see "Cash and Non-cash Benefits for Persons with Limited Income: Eligibility Rules, Recipient and Expenditure Data, fiscal years 1979–81." CRS Report No. 83–110 EPW.

[9] Budget account level spending data provides a fairly low level of aggregation for reporting Federal spending. However, these accounts are not equal to total benefit amounts. Additional outlays, such as salary and expenses might be included. In addition, the nature of the programs composing an account may change from time to time.

[10] The public assistance payment budget account since 1974 includes spending primarily for Aid to Families with dependent children.

[11] If these noncash benefits were to be considered income, the poverty threshold would need to be adjusted to reflected numerous types of noncash income.

FIGURE 5.—FEDERAL BUDGET OUTLAYS FOR CASH AND NONCASH BENEFIT PROGRAMS AFFECTING LOW-INCOME PERSONS—FISCAL YEARS 1963–82



One of the major reasons for the large increase in noncash benefit outlays is health care spending. Medicaid case load expansion and the rising cost of medical care helped to increase spending for medicaid by 485 percent between fiscal year 1967 and fiscal year 1982. Programs like medicaid provide health care financing to groups with higher than average needs for medical service. The higher medical needs combined with caseload expansion greatly increase this spending. Medicare spending increased by 484 percent between fiscal year 1967 and fiscal year 1982.

Like medicaid, subsidized housing payments and food stamps also experienced substantial increases in outlays. Housing assistance payments increased by $6.4 billion between 1963 and 1982. The food stamp program having become a nationwide program with increased participation, had outlays of $11 billion in fiscal year 1982.

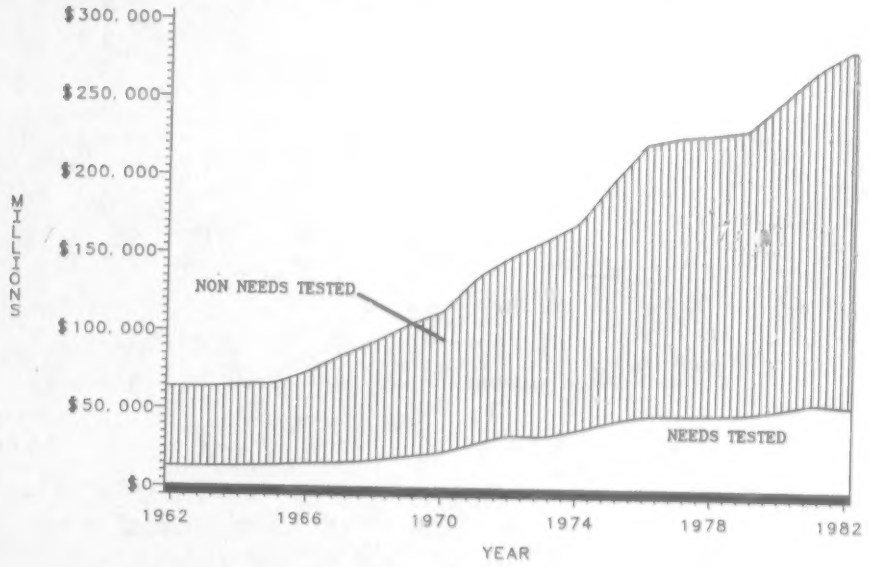
Needs tested and nonneeds tested programs

Even though noncash benefit program outlays increased substantially over this time period, social security outlays represented the largest share of spending among all the programs. In fiscal year 1963, social security outlays represented 65.8 percent of the Federal spending for these nine programs. This share increased to 71.5 percent in fiscal year 1966. The advent of other programs and the increase in Federal spending for unemployment compensation, medicaid and medicare reduced social security's share of the outlays to 51.8 percent by fiscal year 1976. In fiscal year 1982, social security's share of the total outlays increased to 54.4 percent.

By 1982, due to the combination of large social security expenditures and the inauguration and expansion of medicare, non-needs tested outlays composed 80.6 percent of the total outlays affecting

the poor.[12] This is a 3.7 percent increase from fiscal year 1974, the year in which nonneeds tested benefit program outlays represented the smallest share of the major programs affecting the poor.

FIGURE 6.—FEDERAL BUDGET OUTLAYS FOR NEED TESTED AND NONNEEDS TESTED BENEFIT PROGRAMS AFFECTING LOW-INCOME PERSONS—FISCAL YEARS 1963-82



Between 1974 and 1982 the need tested share of the outlays declined by 6.3 percent. This slight relative decline stems from the failure of needs-tested cash programs to keep pace with inflation, and the expansion of social security and medicare. The AFDC program in constant dollar outlays has fluctuated bewteen $9.97 billion in 1974, and $7.99 billion in fiscal year 1982. Fiscal year 1982 outlays represent the lowest spending level since 1974.

Outlays for the SSI account have declined minimally since 1975. Spending for this account was at its highest level, $8.1 billion, in fiscal year 1978. Since fiscal year 1978, outlays have declined by about 5 percent to $7.7 billion in fiscal year 1982. Another needs-tested cash program with declining real outlays is the veterans' non-service-connected pensions program. In 1972 the program had its highest spending level, $5.2 billion. Since this time real outlays have decreased. In fiscal year 1982 the program was at its lowest level for the entire 20-year period.

ANALYSIS OF SELECTED PROGRAMS

The Federal welfare system has four major cash programs and one near-cash program (food stamps), as shown:

[12] In addition, it should be noted that the fiscal year 1982 unemployment compensation outlays increased by $3 billion over the previous year's outlays. This large increase contributed to the non-needs tested programs increase in their share of the total.

	Fiscal year 1982 total benefits (billions)	1983 recipients (thousands)
AFDC	[1] $12,746	10,769 (May).
SSI	[2] 8,597	4,106 (May).
EITC (fiscal year 1981)	2,008	6,700 families (fiscal year 1981).
Veterans' pensions	3,849	1,682 cases (July).
Food stamps	[3] 10,205	21,200 (July).

[1] Federal funds pay about 54–55 percent of total AFDC benefits.
[2] Federal funds pay about 75 percent of total SSI benefits.
[3] Plus $0.2 billion in nutrition assistance to Puerto Rico.

Except for food stamps, none of these welfare programs relates its benefit amounts or eligibility limits to poverty thresholds.[13] Except for food stamps and EITC, all of these programs are intended primarily for persons unable to work or not expected to work: children, mothers of preschool children, the disabled, and the aged. Eligibility restrictions exclude some poor persons of these types from aid. Moreover, no Federal means-tested program offers cash aid to able-bodied, nonaged persons without a child to support, no matter how low their income.

This section describes the five needs-tested programs listed above, plus the work-related programs of unemployment compensation and social security. This section also describes public service employment.

AFDC

Aid to families with dependent children is a program that provides cash assistance to needy children (and their needy caretakers) who lack support because a parent is absent, incapacitated, or "unemployed" (defined to include working no more than 99 hours a month).

In March 1979, 98.5 percent of AFDC children qualified for aid because they lacked support of their father, the rest because their mother was dead, incapacitated, or absent. For 86.9 percent of the children the father was continuously absent from home, for 5.3 percent of the children the father was incapacitated, for 4.1 percent the father was unemployed, and for 2.2 percent the father was deceased.

Benefit levels and poverty

States decide how much money families need (AFDC need standards) and how much to pay those without countable income (AFDC maximum benefits, or "guarantee" levels). Thirty-one of the 54 jurisdictions (50 States, D.C., Guam, Puerto Rico, and Virgin Islands) pay families less than the States say they need; and no State links

[13] Several noncash programs target benefits on the poor or near-poor by using Federal poverty guidelines (derived from the census bureau's poverty thresholds) in setting eligibility limits. They include the school lunch program, other child nutrition programs, community health centers, foster grandparents, legal services, low-income energy aid, and others.

its need standards or maximum benefits to poverty thresholds. Maximum benefits are below poverty thresholds for all family sizes in all jurisdictions except Alaska, which has above-poverty guarantees for two- and three-person families. In more than 40 jurisdictions State guarantees are at least one-third below poverty thresholds.

Maximum benefits for a family of four in September 1983 ranged from $120 in Mississippi ($92.83 paid by the U.S.) to $751 in Alaska ($375.50 paid by the U.S.). The maximum benefit of the median State for four persons was $368, 45 percent of the 1982 poverty threshold of $822. The maximum benefit of the median State for three persons was $310, which is 48 percent of the poverty threshold of $641. See tables 6 and 7.

TABLE 6.—MAXIMUM AFDC BENEFITS, BY FAMILY SIZE,[a] SEPTEMBER 1983

State	Two-person family	Three-person family	Four-person family	Five-person family	Six-person family
Alabama	$88	$118	$147	$177	$206
Alaska*[b]	597	674	751	828	905
Arizona*[c]	180	233	282	322	360
Arkansas	116	140	164	186	207
California*	424	526	625	713	802
Colorado[d]	252	319	387	459	531
Connecticut*[e]	427	529	617	695	777
Delaware*	197	266	312	386	440
District of Columbia	236	299	366	422	497
Florida[f]	178	231	273	315	356
Georgia	169	202	238	272	295
Hawaii*[g]	390	468	546	626	709
Idaho	246	305	345	385	420
Illinois (Cook County)[h]	250	302	368	434	495
Indiana	198	258	318	378	438
Iowa	305	360	419	464	516
Kansas*[i]	306	364	411	453	495
Kentucky*	162	188	235	275	310
Louisiana[j]	138	190	234	277	316
Maine[k]	253	341	430	518	606
Maryland	230	295	355	411	454
Massachusetts	314	379	445	510	575
Michigan (Washtenaw County)*[l]	363	437	512	593	676
Michigan (Wayne County)*[l]	338	412	487	568	651
Minnesota*	412	500	583	654	726
Mississippi	60	96	120	144	168
Missouri*	209	261	305	346	384
Montana	279	332	425	501	564
Nebraska*	280	350	420	490	560
Nevada[m]	183	228	272	317	362
New Hampshire*[n]	291	341	389	437	497

TABLE 6.—MAXIMUM AFDC BENEFITS, BY FAMILY SIZE,[a] SEPTEMBER 1983—Continued

State	Two-person family	Three-person family	Four-person family	Five-person family	Six-person family
New Jersey*	$273	$360	$414	$468	$522
New Mexico*	189	233	281	324	354
New York					
(Suffolk County)* [o]	424	507	602	686	752
(New York City)* [o]	356	424	515	592	672
North Carolina	176	202	221	242	261
North Dakota* [p]	289	357	437	496	547
Ohio	216	263	327	381	424
Oklahoma* [q]	218	282	349	409	468
Oregon*	303	358	433	508	579
Pennsylvania [r]	273	350	415	474	514
Rhode Island* [s]	299	368	421	473	533
South Carolina	108	142	174	206	238
South Dakota* [t]	280	321	361	401	441
Tennessee	101	127	154	182	209
Texas	85	117	140	163	183
Utah	286	362	416	490	540
Vermont [u]	507	530	592	671	716
Virginia [v]	258	310	360	428	453
Washington [w]	374	462	544	627	710
West Virginia [x]	164	206	249	254	254
Wisconsin [y]	436	513	612	760	793
Wyoming [z]	320	360	390	450	510
Guam*	205	265	310	341	371
Puerto Rico [aa]	76	100	124	148	172
Virgin Islands*	154	209	263	317	371
Median State	253	310	368	434	495

[a] Maximum benefit paid for a family of given size with zero countable income. Family members include 1 adult caretaker.

[b] Alaska also has a children only schedule.

[c] Arizona has two payment schedules, one that includes shelter expenses and one that does not.

[d] Colorado no longer has separate payment schedules for winter months and non-winter months.

[e] Connecticut has three rent regions. Data shown are from rent region A which has the highest rents.

[f] Florida has two payment schedules—one that includes shelter expenses and one that does not. Data shown include shelter.

[g] The Hawaii figures include shelter maximums of $215, $240, $265, $290, and $320 for an AFDC family with 2 recipients to 6 recipients, respectively.

[h] Illinois divides itself into 3 distinct areas with regard to payment schedules. Data shown are from the Cook County area, which includes Chicago.

[i] Kansas has a basic standard and a shelter standard. The shelter standard varies from area to area (i.e. from $74 monthly to $132 monthly). The shelter payment in Topeka and some of the other larger cities is $106 monthly. The figures shown include a shelter standard of $132 monthly

[j] Louisiana has two payment schedules—one for urban areas, from which our data were taken, and one for rural areas.

[k] Maine also has a children only schedule.

[l] Michigan has varied shelter maximums. Shown are benefits for Washtenaw County (Ann Arbor) and Wayne County (Detroit).

[m] Nevada also has a children only schedule.

[n] New Hampshire payment schedules include a basic maintenance allowance plus an additional amount depending on the type of shelter: (1) no heat or utilities included in the shelter costs, (2) either heat or utilities included, or (3) both heat and utilities included. Data shown include both heat and utilities.

[o] New York has payment schedules for each social services district. Shown are the Suffolk County and New York City City amounts. The figures include energy payments.

[p] North Dakota also has a children only schedule.

[q] Oklahoma also has a children only schedule.

[r] Pennsylvania has four regions. The figures in the table are from region 1, which has the highest benefits.

[s] Rhode Island has a winter and non-winter payment schedule. The figures in the table are from the non-winter schedule which last from April through October. The winter schedule lasts from November through March.

[t] The South Dakota figures include rent of $120 monthly and utilities equal to $43 monthly.

[u] Vermont has a base amount plus a housing maximum which depends on whether the recipient is living in a furnished or unfurnished apartment inside or outside of Chittenden County. 65 percent of the [base amount + housing allowance] is equal to the largest amount paid to a recipient with no other income. The figures in the table assume the recipient is in a furnished apartment (the amount paid for a furnished apartment is constant statewide—i.e. $239).

[v] Virginia has three payment schedules. The figures shown are from area 3 which has the highest benefits.

[w] Washington has two payment schedules—one that includes shelter expense and one that does not.

[x] West Virginia has three payment schedules. The figures show the higher benefit levels.

[y] Wisconsin has two payment schedules.

[z] Wyoming has two payment schedules—one that includes shelter costs and one that excludes shelter costs. The figures shown include shelter.

[aa] Puerto Rico pays 50 percent of need plus rent as paid. The figures assume rent at $20 a month. Officials assert that $20 is the amount which has actually been allowed for families.

*These States pay 100 percent of the need standard.

Note: Table prepared by CRS on the basis of a telephone survey of the States.

TABLE 7.—AFDC NEED STANDARD, MAXIMUM PAYMENT, AND PERCENT OF NEED PAID FOR A 3 AND 4 PERSON FAMILY, WITH NO COUNTABLE INCOME, SEPTEMBER 1983

State	3-person family			4-person family		
	100 percent of "need"	Maximum benefits [a]	Percent of "need" paid	100 percent of "need"	Maximum benefits [a]	Percent of "need" paid
Alabama	$384	$118	31	$480	$147	31
Alaska	674	674	100	751	751	100
Arizona	233	233	100	282	282	100
Arkansas	234	140	60	273	164	60
California	526	526	100	625	625	100
Colorado	388	319	82	470	387	82
Connecticut	529	529	100	617	617	100
Delaware	266	266	100	312	312	100
District of Columbia	586	299	51	715	366	51
Florida	400	231	58	468	273	58
Georgia	366	202	55	432	238	55
Hawaii	468	468	100	546	546	100
Idaho	554	305	55	627	345	55
Illinois (Cook County)	542	302	56	660	368	56
Indiana	307	[b]258	84	363	[b]318	88
Iowa	494	360	73	572	419	73
Kansas	364	364	100	411	411	100
Kentucky	188	188	100	235	235	100
Louisiana	538	190	35	661	234	35
Maine	471	341	72	593	430	73

TABLE 7.—AFDC NEED STANDARD, MAXIMUM PAYMENT, AND PERCENT OF NEED PAID FOR A 3 AND 4 PERSON FAMILY, WITH NO COUNTABLE INCOME, SEPTEMBER 1983—Continued

State	3-person family			4-person family		
	100 percent of "need"	Maximum benefits [a]	Percent of "need" paid	100 percent of "need"	Maximum benefits [a]	Percent of "need" paid
Maryland	$373	$295	79	$450	$355	79
Massachusetts	398	379	95	467	445	95
Michigan:						
(Washtenaw County)	437	437	100	512	512	100
(Wayne County)	412	412	100	487	487	100
Minnesota	500	500	100	583	583	100
Mississippi	286	[c]96	34	327	[c]120	37
Missouri	312	261	84	365	305	84
Montana	401	332	83	513	425	83
Nebraska	350	350	100	420	420	100
Nevada	285	228	80	341	272	80
New Hampshire	341	341	100	389	389	100
New Jersey	360	360	100	414	414	100
New Mexico	233	233	100	281	281	100
New York:						
(Suffolk County)	507	507	100	602	602	100
(New York City)	424	424	100	515	515	100
North Carolina	404	202	50	442	221	50
North Dakota	357	357	100	437	437	100
Ohio	537	263	49	643	327	51
Oklahoma	282	282	100	349	349	100
Oregon	358	358	100	433	433	100
Pennsylvania	570	350	61	675	415	61
Rhode Island	368	368	100	421	421	100
South Carolina	187	[d]142	76	229	[d]174	76
South Dakota	321	321	100	361	361	100
Tennessee	179	127	71	217	154	71
Texas	168	117	70	201	140	70
Utah	672	[e]362	54	772	[e]416	54
Vermont	816	530	65	911	592	65
Virginia	344	310	90	400	360	90
Washington	728	462	63	856	544	64
West Virginia	275	206	75	332	249	75
Wisconsin	604	513	85	720	612	85
Wyoming	360	360	100	390	390	100
Guam	265	265	100	310	310	100
Puerto Rico	160	[f]100	63	208	[f]124	60
Virgin Islands	209	209	100	263	263	100
Median State		310			368	

[a] Maximum benefits are identical to payment standards unless footnoted.
[b] Indiana's payment standards are $276 for 3 persons, $326 for 4 persons.
[c] Mississippi's payment standards are $286 for 3 persons, $327 for 4 persons.
[d] South Carolina's payment standards are $187 for 3 persons, $229 for 4 persons.
[e] Utah's payment standards are $672 for 3 persons, 772 for 4 persons.
[f] Puerto Rico pays a maximum benefit of 50 percent of the need standard plus rent as paid. There is no official limit on the amount of rent that can be paid as part of the AFDC grant. The Department of Health and Human Services reported that $20 was the average amount of rent paid as of July 1, 1983. Data assume rent is $20.

Fourteen years earlier, in July 1969, the maximum AFDC benefit of the median State for four persons (then the usual AFDC family size) had been 68 percent of poverty; and in July 1970, 72 percent.

Figure 7 illustrates the erosion of AFDC maximum benefit levels of the median State in constant dollars from a peak of $575 (July 1983 dollars) for four persons in 1970 to $368 in July 1983. In this period only California, Massachusetts, and Hawaii had laws requiring automatic benefit adjustments for price inflation, but all suspended them after limited use.

FIGURE 7

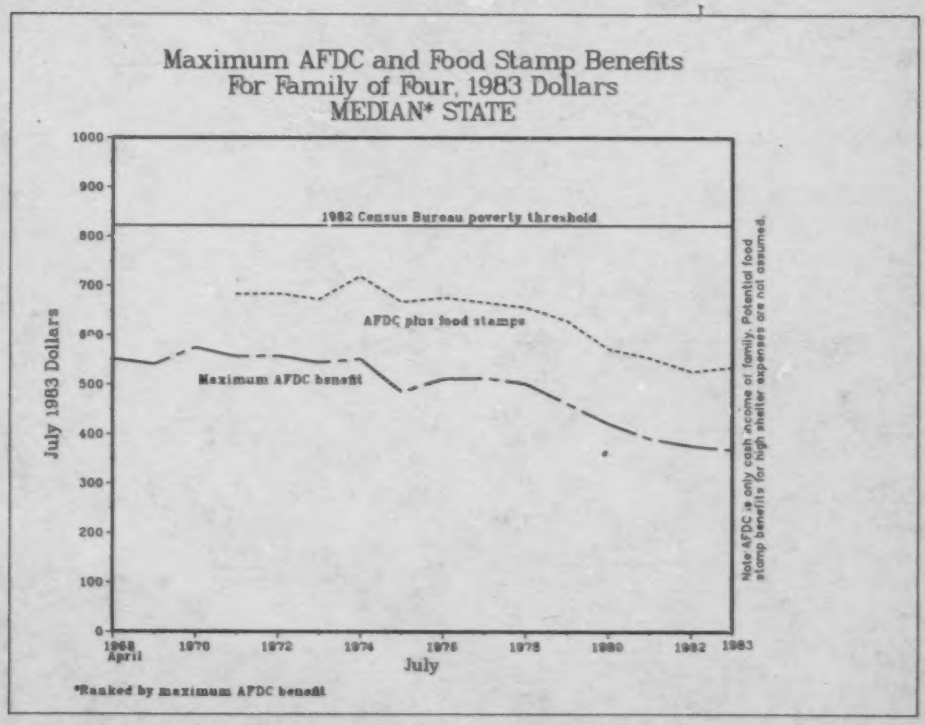


Table 8 shows that in all States except three, maximum AFDC benefits for a four-person family declined from July 1970 to July 1983 after adjustment for inflation. The decline in real value of the median State's maximum payment was 36 percent. In these 12 years, California and Wisconsin increased benefits in constant dollars by 10 percent; Maine maintained benefits.

TABLE 8.—AFDC MAXIMUM BENEFIT FOR A 4-PERSON FAMILY, BY STATE, SELECTED YEARS

	July 1970	July 1975	July 1980	September 1983 [1]	Percent increase 1970–83	Percent increase in July 1983 dollars
Alabama	$81	$135	$148	$147	81	−29
Alaska	375	400	514	751	100	−22
Arizona	167	197	244	282	69	−34
Arkansas	100	140	188	164	64	−36
California	221	349	563	625	183	10
Colorado	235	264	351	387	65	−36
Connecticut	330	403	553	617	87	−27
Delaware	187	258	312	312	67	−35
District of Columbia	238	297	349	366	54	−40
Florida	134	170	230	273	104	−20
Georgia	133	153	193	238	79	−30
Hawaii	263	497	546	546	108	−19
Idaho	242	344	367	345	43	−44
Illinois	282	317	350	368	30	−49
Indiana	150	250	315	318	112	−17
Iowa	243	356	419	419	72	−33
Kansas	244	353	390	411	68	−34
Kentucky	187	235	235	235	26	−51
Louisiana	109	158	[1] 213	234	115	−16
Maine	168	219	352	430	156	0
Maryland	196	242	326	355	81	−29
Massachusetts	314	[2] 368	[1] 419	445	42	−45
Michigan [3]	NA	453	[1] 531	512	NA	NA
(Detroit)	(263)	(399)	(501)	(487)	(85)	(−28)
Minnesota	299	385	486	583	95	−24
Mississippi	70	60	120	120	71	−33
Missouri	130	150	290	305	135	−8
Montana	228	227	331	425	86	−27
Nebraska	200	245	370	420	110	−18
Nevada	143	230	314	272	90	−25
New Hampshire	294	346	392	389	32	−48
New Jersey	347	356	414	414	19	−53
New Mexico	182	206	267	281	54	−40
New York [4]	NA	[1] 476	[1] 563	602	NA	NA
(New York City)	(336)	(400)	(476)	(515)	(53)	(−40)
North Carolina	158	200	210	221	40	−45
North Dakota	261	347	408	437	67	−34
Ohio	200	254	327	327	64	−36
Oklahoma	185	264	349	349	89	−26
Oregon	225	413	[1] 441	433	92	−25

TABLE 8.—AFDC MAXIMUM BENEFIT FOR A 4-PERSON FAMILY, BY STATE, SELECTED YEARS—Continued

	July 1970	July 1975	July 1980	September 1983 [1]	Percent increase 1970–83	Percent increase in July 1983 dollars
Pennsylvania	$313	$349	$395	$415	33	−48
Rhode Island	263	319	389	[5] 421	60	−37
South Carolina	103	117	158	174	69	−34
South Dakota	300	329	361	361	20	−53
Tennessee	129	132	148	154	19	−53
Texas	179	140	140	140	−22	−69
Utah	212	306	429	416	96	−33
Vermont	304	367	552	592	95	−24
Virginia	261	311	[1] 305	360	38	−46
Washington	303	370	536	544	80	−30
West Virginia	138	249	249	249	80	−29
Wisconsin	217	403	529	612	182	10
Wyoming	227	250	340	390	72	−33
Guam	NR	NR	306	310	NA	NA
Puerto Rico	53	53	[1] 66	124	134	−8
Virgin Islands	NR	166	210	263	NA	NA
Median State	225	264	350	368	64	−36

[1] CRS survey data.
[2] Includes quarterly grant pro-rated monthly, (CRS survey).
[3] Washtenaw County (Ann Arbor).
[4] Suffolk County.
[5] Summer rate (April–October) Winter rate was $528.
NR = Not reported.
NA = Not available.

Note: Table compiled by the Congressional Research Service (CRS) on the basis of data from the Department of Health and Human Services and, where noted, CRS itself. The last column of the table was computed using the CPI–XI Consumer Price Index.

Enrollment in AFDC confers automatic eligibility for medicaid. Most AFDC families are eligible also for food stamps (until 1979 all were). As real AFDC benefits declined, food stamp benefits offset part of their losses. However, combined AFDC-food stamp benefits for a four-person family without countable income in the median AFDC State dropped from $683 (1983 dollars) in 1971, when food stamps first operated under uniform national rules, to $536 in July 1983. (See table 9.) This drop, which amounted to 22 percent, was almost wholly due to shrinkage in AFDC levels. Food stamp maximum benefits were virtually unchanged, since they were adjusted for food price inflation in all years except 1982.

TABLE 9—COMBINED BENEFITS, AFDC FAMILY OF 4 PERSONS WITH NO COUNTABLE INCOME, MEDIAN AFDC STATE

[Dollar amounts in July 1983 dollars]

	July 1971		July 1983	
	Dollars	Percent of combined benefits	Dollars	Percent of combined benefits
AFDC	556	82	368	69
Food stamps [1]	127	18	168	31
Total	683	100	536	100
Maximum food stamp allotment	264	.....	253	.....

[1] Benefit calculation does not assume excessive shelter costs, which would result in extra food stamp benefits.

Figures 8, 9, and 10 (Tennessee, New York City, and California) indicate that the erosion in AFDC has not been uniform. In Tennessee it was sharper than average. Maximum AFDC benefits plunged more than 50 percent, from $316 per four-person family (July 1983 dollars) in 1971 to $154 in 1983. Even though real food stamp benefits for such a family rose 17 percent as a partial offset to the cash loss, combined benefits fell by 25 percent. New York City also had unusually severe AFDC erosion. AFDC guarantees dropped from $766 in 1971 (1983 dollars) to $515, and combined benefits sank 25 percent. California AFDC benefits, which were automatically adjusted for price inflation during some of the years, were relatively steady, and combined benefits fell only 3.5 percent.

FIGURE 8

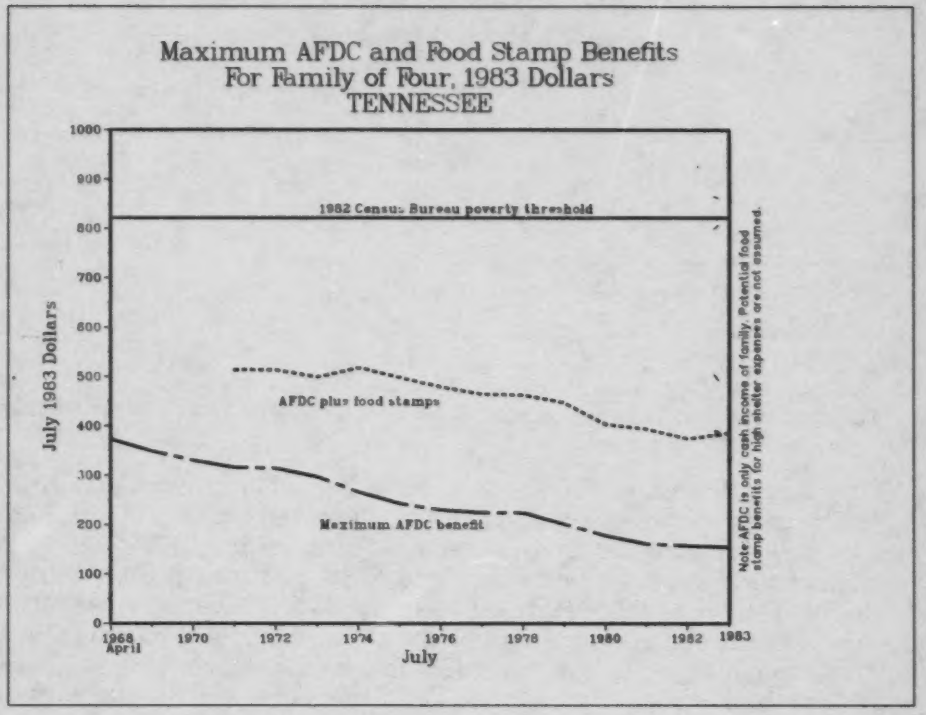


FIGURE 9

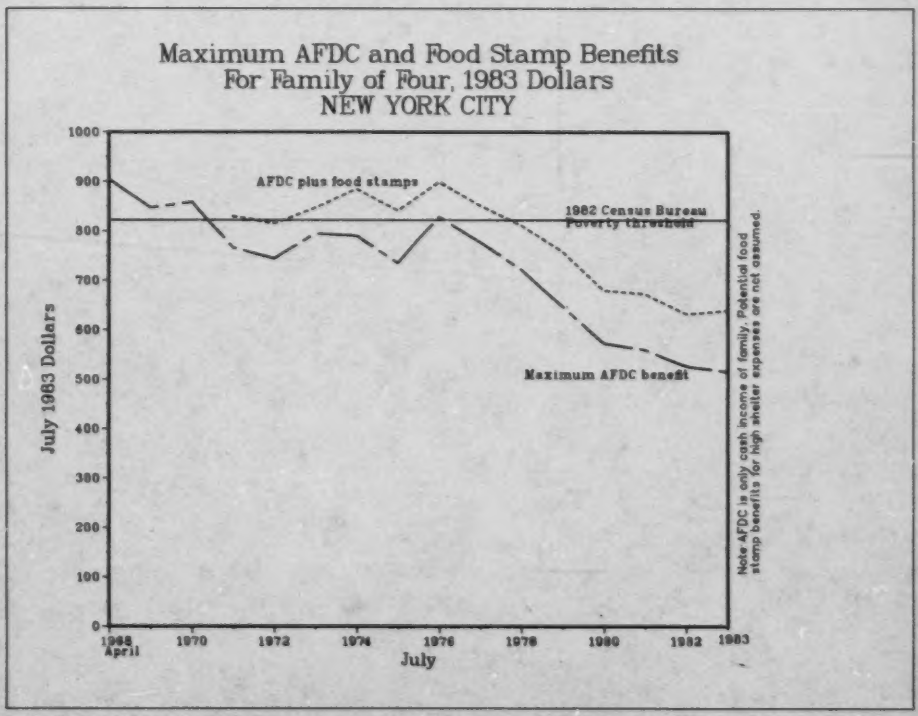


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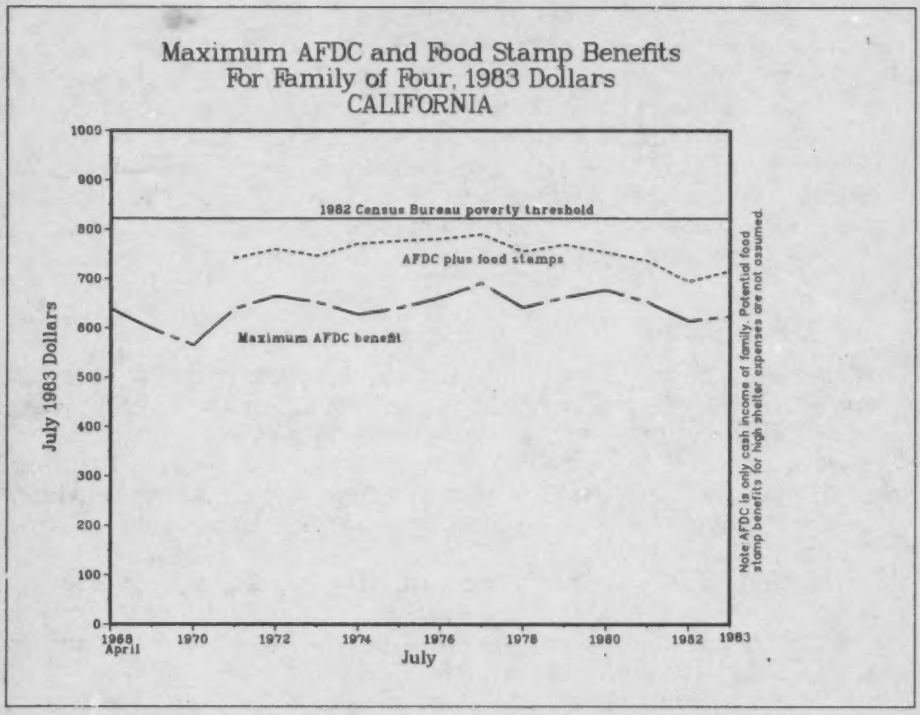
FIGURE 10



In the last 12 years the role of food stamps as a support to AFDC families has grown. Many States have increased their use of food stamps, which are 100 percent federally funded, as a supplement to AFDC cash. As shown in table 9, food stamps now represent 31 percent of combined benefits to a four-person family without private income in the median AFDC State. Back in 1971, the corresponding food stamp share was 18 percent.

Eligibility and poverty

To receive AFDC payments a family must pass two income tests: First, a gross income test and, second, a counted ("net") income test, which deals with treatment of disregarded income, such as earnings spent on child care. The gross income ceiling is 150 percent of a State's need standard; the net income ceiling (discussed later) is set at 100 percent of its need standard. Thus, disregarded earnings cannot exceed 50 percent of a State's need standard.

The gross income test, imposed by Congress as part of the Omnibus Budget Reconciliation Act of 1981 (Public Law 97-35), applies to both applicants and enrollees. No family with gross income, including a child's earnings, that is more than 50 percent above the State need standard can receive AFDC.

The effect of this rule is to bar from AFDC help some poor families of three persons in the 35 jurisdictions that have a need standard below $428, two-thirds of the poverty threshold. Examples range from Puerto Rico and Texas, where eligibility ends when

gross income reaches $240 and $252, respectively, (more than 60 percent below the poverty threshold) to New York City, where the cutoff is $636 (just below the poverty threshold).

Poor families barred from AFDC by this gross income rule are eligible for food stamps. For example, the New York City family of three with earnings of $636 would be eligible for at least $68 in food stamps, more if its shelter costs were high.

However, loss of AFDC by poor families causes loss of automatic eligibility for medicaid. Those who live in one of the 34 States with a medically needy program can continue to receive medicaid, but only after spending prescribed sums on their own medical expenses.

Earnings and poverty

As noted earlier, except for Alaska no State pays a destitute family an AFDC benefit large enough for it to escape from poverty. Indeed, half the States provide less than 48 percent of the poverty threshold for a three-person family. At this cash level ($310), food stamps would make up some of the deficit; for most of such families, food stamps would bring combined income up to about 69 percent of poverty ($441).

Could the AFDC mother make up the remaining poverty gap ($200) with a job?

The answer is no, not while enrolled in AFDC. Under current law, she could supplement her AFDC check by working, but only for 4 months, the duration of a disregard of a fraction of net earnings.[14] Thereafter, every "net" dollar of wages would be deducted from the AFDC grant. For example, if she took a half-time minimum wage job (grossing $319, including the EITC), it would net her $202 (after deduction of the $75 standard expense allowance and the maximum child care cost allowance for one child, $160, both halved for half-time work). Accordingly, the original AFDC grant of $310 would be reduced by $202 to $108. Result: net income of $310, equal to her AFDC guarantee at zero earnings.[15] Under current law, the AFDC income floor of a State has generally become the net ceiling of a working recipient as well.[16] In effect, the law imposes a "tax" (benefit reduction) equal to 100 percent of the net wages earned by AFDC adults.

Table 10 illustrates this with the example of a mother and two children in Pennsylvania. At zero earnings, she is eligible for an AFDC grant (annualized) of $4,200. After 4 months on a job, her AFDC grant is reduced by 100 percent of all earnings left after payment of child care costs and a standard expense allowance.

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[14] During the first four months of a job, the law gives the working recipient a bonus equal to $30 plus one-third of wages remaining after deduction of: the original $30, the standard deduction, and child care costs (up to a ceiling). Before Public Law 97-35, the law offered a permanent work incentive bonus to AFDC mothers who worked: Disregard of the first $30 earned and one-third of the remainder. Further, the law required States to disregard, after the work incentive deduction, all reasonable work expenses.

[15] The formula for final income (I), where G=gross wages; A=AFDC maximum benefit, and X=expense allowance: $I=G-X+A-(G-X)$. This simplifies to $I=A$.

[16] In Indiana, Mississippi, South Carolina, and Utah, this is not the case. These States subtract any countable income from a payment standard that is above their maximum benefit. In effect, they allow the recipient to fill some of the gap between benefit and need standard with wages.

The result is that at earnings of $5,000, she has income of $4,200, exactly the sum AFDC paid her when she had no job. Added to this is $1,490 in food stamps. At zero earnings she was eligible for $1,448 in food stamps.

Earnings	$5,000
EITC	+500
Deductible expenses	−2,350
AFDC	+1,050
Before-tax cash	$4,200

TABLE 10.—EARNINGS AND BENEFITS FOR A MOTHER WITH TWO CHILDREN—AFTER 4 MONTHS ON JOB (SEPTEMBER 1983)—(PENNSYLVANIA)

Earnings	EITC	AFDC [1]	Food stamps [2]	Medicaid	Taxes			Work expenses [4]	"Disposable" income [5]
					Social security	Federal income [3]	State income		
0	0	$4,200	$1,448	Yes	0	0	0	0	[6]5,648
$2,000	$200	2,940	1,465	Yes	$134	0	0	$940	[6]5,531
$4,000	400	1,680	1,482	Yes	268	0	0	1,880	[6]5,414
$5,000	500	1,050	1,490	[7]No	335	0	$11	2,350	5,344
$6,000	500	0	1,559	No	402	$77	132	2,820	4,628
$7,000	375	0	1,344	No	469	187	154	2,820	5,089
$8,000	250	0	1,128	No	536	309	176	2,820	5,537
$9,000	125	0	913	No	603	439	198	2,820	5,978
$10,000	0	0	698	No	670	579	220	2,820	6,409
$15,000	0	0	0	No	1,005	1,430	330	2,820	9,415
$20,000	0	0	0	No	1,340	2,420	440	2,820	12,980
$30,000	0	0	0	No	2,010	5,012	660	2,820	19,498
$50,000	0	0	0	No	2,392	12,270	1,100	2,820	31,418

[1] Assumes pro-rated deductions (standard plus cost of care for one child): $940 at earnings of $2,000; $1,880 at $4,000, $2,350 at $5,000, and $2,820 (maximum under AFDC law) at $6,000 and above.
[2] Assumes these deductions (reflecting proration for dependent care): $1,020 at zero earnings, $1,668 $2,000 $2,268 at $4,000; $2,568 (maximum) at $5,000 and above.
[3] Head of household rates in effect for 1983.
[4] Assumed to equal deductions, including cost of care for one child, presumed in AFDC (see footnote 1).
[5] Cash income after taxes and expenses, plus food stamps.
[6] Plus medicaid (which in fiscal year 1978 cost about $1,260 for a 3-person AFDC family, national average).
[7] Automatic medicaid eligibility ends when gross income (including EITC) equals $4,700. To regain eligibility, family must spend-down on medical expenses to State's medically needy income limit.
Source: Congressional Research Service.

When an AFDC mother's youngest child reaches age 6, she is required by law to register for work or job training. States may require her to participate in one of several work programs: Work incentive (WIN) program, job search, work supplementation; or community work experience program (CWEP). CWEP participants receive no wages, but "work off" their welfare grants. This program often is referred to as "workfare."

One way in which the mother with the $310 monthly AFDC check in the median State, could increase her sub-poverty income

would be to find a job netting more than AFDC, in which case she would lose AFDC eligibility in most States after 4 months. However, to lift herself and her two children out of poverty, she would need earnings slightly higher than those from a full-time job at the minimum wage.

SSI

The supplemental security income (SSI) program provides cash assistance to needy aged, blind and disabled persons. The age requirement is 65 years; the definition of disability is the same as that of the social security program of disability insurance: a physical or mental condition that prevents the person from engaging in substantial gainful activity in the economy (the test of substantial gainful activity currently is having counted earnings of $300 monthly).

April 1983 enrollment totaled 4.1 million persons, (0.2 million in State-administered programs) of whom 51.7 percent were aged, 46.8 percent disabled, and 1.6 percent blind. Some of the aged first received SSI as disabled persons under age 65 (and still are classified as disabled by SSA).

Benefit levels and poverty

SSI provides a minimum income guarantee that is determined by Federal law and administered by the Social Security Administration (SSA). The Federal income floor in July–December 1983 is $304.30 monthly per individual and $456.40 per couple. These amounts, which include a 7-percent ad hoc benefit boost paid in July 1983 after Congress postponed the scheduled 1983 cost-of-living allowance (COLA), are 79 percent and 94 percent, respectively, of their 1982 poverty thresholds.[17]

On January 1, 1984, when the 1983 (COLA) is to be paid belatedly, Federal SSI guarantees are to climb to $314 per individual and $472 per couple.

Like poverty thresholds, SSI benefits normally are adjusted annually for price inflation, but the measuring periods have been different.[18] As a result, the poverty thresholds for aged persons rose about 10 percent more in 1973–81 than Federal SSI benefit levels in 1974–82.

States may provide additional payments to SSI recipients at their own expense. In July 1983, 26 States plus the District of Columbia offered supplements for aged persons living independently. The State payments ranged from $10 per individual in Maine to $242 in Alaska, $156.70 in California, and an estimated $166.30 in Connecticut.

Provision of State supplements lifted maximum benefit levels for aged individuals above the poverty threshold in 7 States, and for aged couples, in 20 States. For example, the July 1983 SSI guarantee level in California for an individual was $461, 119 percent of

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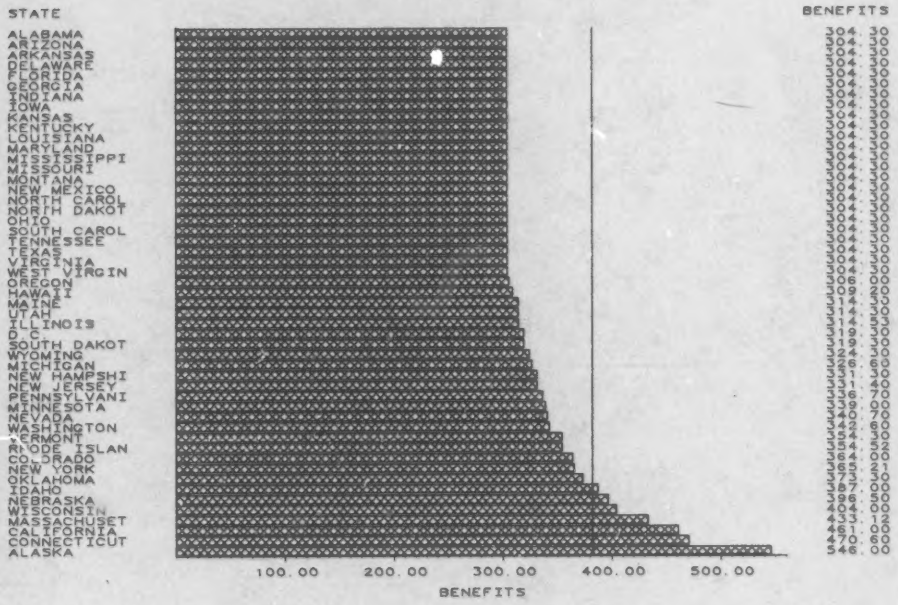
[17] The Federal guarantees to a SSI couple is 50 percent bigger than that of a single, but the poverty threshold is only 28 percent higher.

[18] The poverty thresholds are adjusted on the basis of the percentage change in the CPI from one year to the next, as measured by each year's monthly average. Social security and SSI COLA were made (through July 1982) on the basis of the percentage change in the CPI from the first calendar quarter of one year to the next, as measured by each quarter's monthly average.

the 1982 poverty threshold for an aged person. See figures 11 and 12, showing State maximum SSI benefit levels and how they compare with poverty thresholds.

FIGURE 11

MAXIMUM SSI BENEFITS, JULY 1, 1983
AGED INDIVIDUAL LIVING INDEPENDENTLY *



*FEDERAL INCOME FLOOR ($304.30) PLUS STATE SUPPLEMENT, IF ANY

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(1983 dollars) to $60.91, a drop of 46 percent. The California supplement also declined, but much less sharply, from $186 to $156.70, a drop of 16 percent.

FIGURE 13

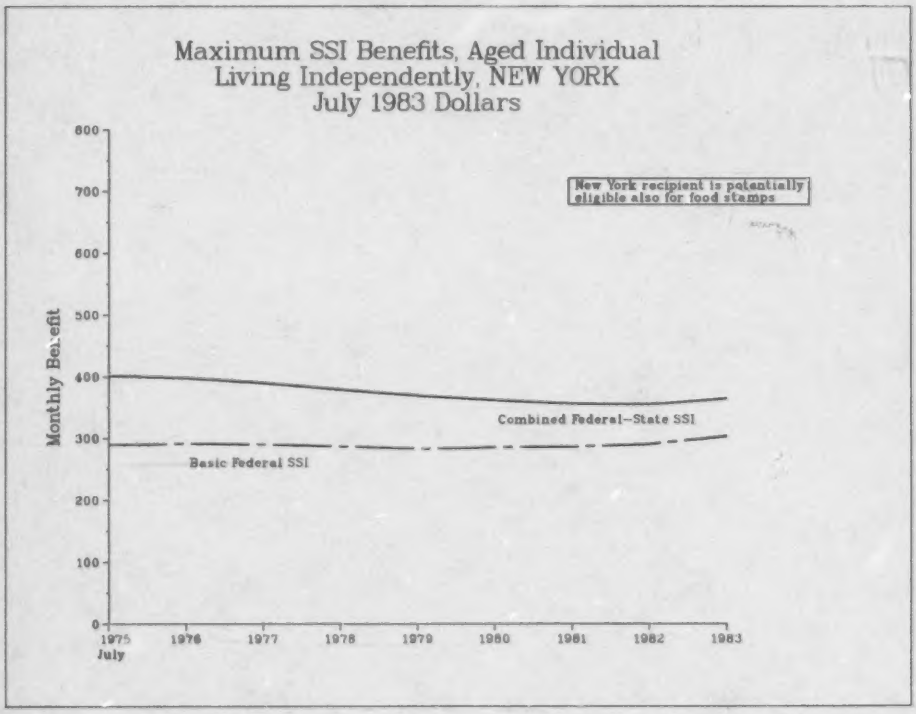

FIGURE 14

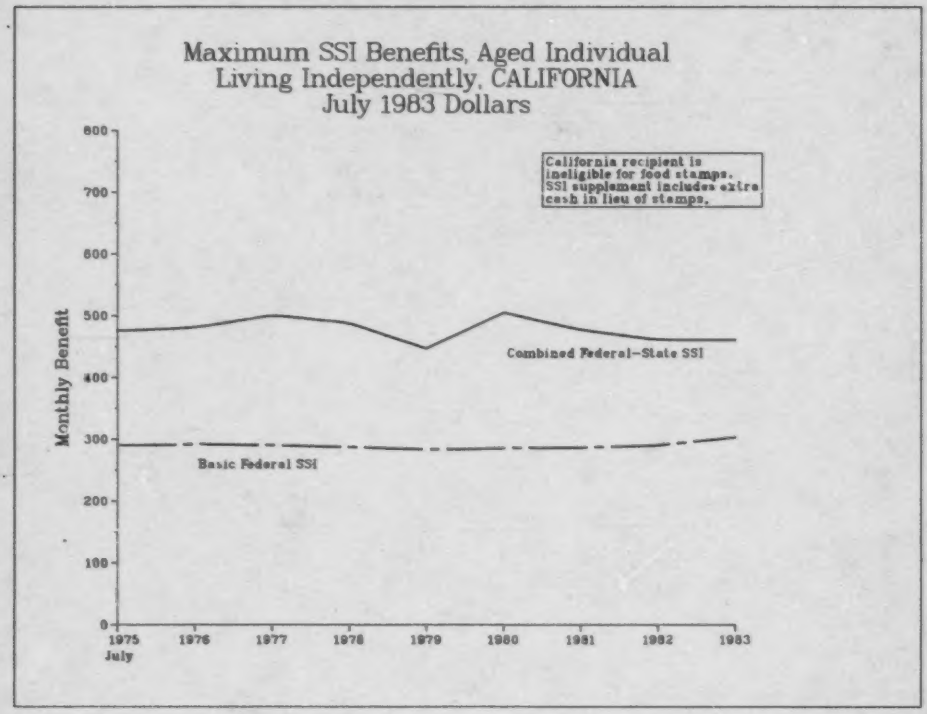

TABLE 11.—COMPARISON OF COMBINED BENEFITS TO POVERTY THRESHOLDS FOR ELIGIBLE INDIVIDUALS RECEIVING SSI; SSI AND SOCIAL SECURITY; AND SSI, SOCIAL SECURITY AND FOOD STAMPS FOR SELECTED YEARS FROM 1975 TO 1984

	1975	1977	1979	1980	1981	1982	1983 (projected)	1984 (projected)
Poverty threshold	2,572	2,895	3,472	3,941	4,360	4,630	[1] 4,777	[2] 5,001
Federal SSI benefits:								
Dollars per year	1,822	2,074	2,386	2,677	3,016	3,294	3,532	3,768
Percent of poverty	70.8	71.6	68.7	67.9	69.2	71.1	73.9	75.3
Federal SSI and social security:								
Dollars per year	2,062	2,314	2,626	2,917	3,256	3,534	3,772	4,008
Percent of poverty	80.2	79.9	75.6	74.0	74.7	76.3	79.0	80.1
Federal SSI, social security, and food stamps:								
Dollars per year	2,350	2,614	2,986	3,345	3,664	3,906	4,104	4,294
Percent of poverty	91.4	90.3	86.0	84.9	84.0	84.4	85.9	85.9

[1] Factor used to update 1982 threshold: 1.0318 (Congressional Budget Office).
[2] Factor used to project 1984 threshold: 1.0469 (CBO).

TABLE 12.—COMPARISON OF COMBINED BENEFITS TO POVERTY THRESHOLDS FOR ELIGIBLE INDIVIDUALS RECEIVING SSI; SSI AND SOCIAL SECURITY; AND SSI, SOCIAL SECURITY AND FOOD STAMPS FOR SELECTED YEARS FROM 1975 TO 1984

	1975	1977	1979	1980	1981	1982	1983 (projected)	1984 (projected)
Poverty threshold	3,232	3,637	4,364	4,954	5,500	5,840	[1] 6,026	[2] 6,309
Federal SSI benefits:								
Dollars per year	2,734	3,111	3,578	4,016	4,524	4,940	5,297	5,664
Percent of poverty	84.6	85.5	82.0	81.1	82.3	84.6	87.9	89.8
Federal SSI and social security:								
Dollars per year	2,974	3,351	3,818	4,256	4,764	5,180	5,537	5,904
Percent of poverty	92.0	92.1	87.5	85.9	86.6	88.7	91.9	93.6
Federal SSI, social security, and food stamps:								
Dollars per year	3,430	3,999	4,406	4,906	5,412	5,792	6,104	6,393
Percent of poverty	106.1	101.0	101.0	99.0	98.4	99.2	101.3	101.3

[1] Factor used to update 1982 threshold: 1.0318 (Congressional Budget Office).
[2] Factor used to project 1984 threshold: 1.0469 (CBO).

Eligibility and poverty

Unlike AFDC, where a family can be deemed needy by a State but receive no payment because maximum benefit levels are below need standards, SSI makes eligible all those with counted income below its guarantee levels. Thus, its guarantee levels are equal to its counted income eligibility limits. Further, the Social Security Act disregards the first $60 quarterly ($20 monthly) of any income received by an SSI individual or couple, 50 percent of whom have social security benefits. For dual recipients of SSI and social security, July 1983 minimum income guarantees thus were $324.30 for individuals and $476.40 for couples. These amounts equalled 84 percent and 98 percent, respectively, of poverty thresholds. For those with earnings, gross earnings eligibility limits are more than double these amounts. See below.

Earnings and poverty

SSI not only provides an income floor for aged, blind, or disabled persons. It also offers aid to some persons whose earnings exceed that floor by 100 percent or more. SSI pays its full cash guarantee to those without income. For those with earnings, it provides a smaller government payment, one that declines as earnings rise. However, so as to assure that the person who works is better off financially than the one who does not work, the drop in the SSI payment is not so sharp as the rise in earnings.

This form of minimum income guarantee, which phases out its guarantee gradually as earnings rise, is essentially a negative income tax, although it is administered by SSA rather than the Internal Revenue Service (IRS). SSI has a guarantee level and a bene-

fit-reduction rate (analogous to a tax rate), and these two together determine the gross earnings limit, or "break even" level.[20]

The SSI guarantee per individual is $304.30. Benefits are reduced by 50 percent of earnings after the first $65 earned monthly ($85 if the person has no unearned income). That is, for every dollar of earnings above $65, the SSI payment is reduced by 50 cents. Thus, it takes earnings of $65 plus $608.60 (two times $304.30) to phase out the guarantee. An aged person is eligible for SSI assistance if his gross earnings are below $673.60 monthly, 175 percent of his 1982 poverty threshold. However, for the disabled, earnings in excess of $300 a month are used as an indicator that an individual is no longer disabled. Current law (with an expiration date) does allow an individual, whose impairment continues, to remain eligible for a gradually reducing amount of SSI and for medicaid.

In May 1982, 3.2 percent of the SSI population reported having some earnings.

EARNED INCOME TAX CREDIT (EITC)

The earned income tax credit offers an earnings supplement to married couples who support a child and to single parents who maintain a household for a child, provided their adjusted gross income is below $10,000.

EITC is the only tax credit which is "refundable," meaning that a person does not need to owe any income tax to receive the credit. For those whose income is below the income tax threshold, or whose tax liability is smaller than their credit, IRS makes a direct payment of the credit.

To receive the credit, however, a person must make application, either by filing an income tax return at the end of the tax year or by filing a certificate with his employer for advance payments of the credit by addition to his paycheck.

According to preliminary estimates, 6.3 million families received EITC credits in January–August 1983, 4.5 million of whom received all or part of the credit in a refund check from the Treasury. By definition, all the families had dependent children.

Benefit levels and poverty

Congress determines the parameters of EITC. When enacted in 1975, the maximum credit was set at $400 per family. Effective in 1979, this was raised to $500, its current level.

The credit equals 10 percent of the first $5,000 in earnings, but may not exceed $500 per family. The size of the credit is related to a worker's wages, not to the number of children dependent on the wages. Between earnings of $5,000 and $6,000, the law provides the maximum credit of $500. The credit is gradually phased out at income levels above $6,000 and ends at earnings of $10,000.

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[20] Before enactment of the Omnibus Budget Reconciliation Act of 1981, Public Law 97-35, and before implementation of the Food Stamp Amendments of 1977, respectively, AFDC and food stamps also had the characteristics of a negative income tax: guarantee level, benefit-reduction rate, and resulting income cutoff. However, AFDC had 54 guarantees, one for each State and outlying area, and its benefit-reduction rate was 67 percent of earnings above $30 monthly, less reasonable work expenses, which varied by individual. The food stamp program still has a national income floor, now set at 99 percent of the cost of the Thrifty Food Plan, and its benefit-reduction rate is 30 percent of counted income, but the 1977 law broke the link between these elements and the income cutoff by setting a "net" income limit equal to poverty thresholds.

The EITC maximum credit of $500 equals 8 percent of the 1982 poverty threshold for a two-person family, 6.5 percent for a three-person family, and 5 percent for a four-person family.

Eligibility and poverty

The EITC income limit of $10,000 represents 130 percent of the 1982 poverty threshold for two, 101 percent for three, 86 percent for four.

Earnings and poverty

Unlike other income-tested cash programs, which offer maximum aid to those with no counted income, EITC restricts its benefits to those with earnings and pays its maximum benefit of $500 to those with substantial earnings ($5,000 to $6,000). For each dollar earned up to $5,000, EITC adds 10 cents to a worker's income, providing a financial incentive to increase earnings.

However, above annual earnings of $6,000, EITC reduces benefits by a fraction of earnings, just as some conventional welfare programs do. Its benefit-reduction rate is 12.5 percent. This means that the credit is reduced by 1 dollar for each 8 dollars of earnings above $6,000. Thus, the maximum credit of $500 is phased out when earnings have climbed $4,000 above the "bend point" to $10,000. Earnings in this income range put some workers above the income tax threshold for the first time, exposing them to income taxes along with a cut in the EITC.

Since 1980, the law has required AFDC and food stamps to treat EITC as earned income. Earlier, EITC benefits could not be taken into account by any benefit program that used Federal funds.

VETERANS' PENSIONS

This program provides cash assistance to veterans aged 65, regardless of physical condition, to veterans who are totally and permanently disabled for reasons not related to military service, and to needy survivors of veterans.

In June 1981, an estimated 2.8 million veterans, dependents, and survivors received veterans' pensions.

Benefit levels and poverty

The veterans' pension program provides a minimum income guarantee that is determined by Federal law and administered by the Veterans' Administration (VA). The income floor in June 1982-December 1983 for a single veteran is $444 monthly, 115 percent of the 1982 poverty threshold for a single aged person. For a single widow or widower, however, the guarantee is $298, 73 percent of the poverty threshold. For a veteran with two or three dependents the income guarantee is above the poverty threshold; for larger families, below.

On January 1, 1984, when the 1983 COLA is to be paid belatedly, the guarantees are to climb to $460 per veteran and $308 per widow(er).

Veterans' pensions are adjusted for price inflation at the same time and by the same percentage as social security benefits.

In December 1980, 95,645 recipients of veterans' pensions also received SSI; their pensions averaged $112.51.

Eligibility and poverty

Virtually all private income of a veteran and his family, including social security benefits and adult earnings, is counted as available. However, private or public welfare payments are excluded. The exclusion of welfare payments usually does not increase eligibility limits for veterans' pensions because most recipients of veterans' pension are ineligible for SSI on income grounds. Except in States that offer high supplementary payments to SSI. Thus, the maximum benefits of the veterans' pension program, noted above, are also its eligibility limits.

Earnings and poverty

The program reduces benefits by 100 percent of earnings (other than those of a child). As noted above, the program's income floor usually is its ceiling.

FOOD STAMPS

This program provides assistance to virtually all needy persons, including those with full-time jobs. However, certain categories of persons are barred from the program, including households with striking members, unless eligible before the strike; non-working postsecondary students without families; and SSI recipients in California and Wisconsin, where SSI cash benefits have been increased to include an estimated value for food stamps.

A study made in August 1981 found that 56 percent of food stamp households contained a child; 21 percent, a person aged at least 60; and 8 percent, a disabled person. Of the total 20.6 million persons then enrolled, 47 percent were children; 38 percent, aged 18 through 59; 9 percent, aged at least 60; and the rest were of unknown age.

Benefit levels and poverty

Food stamps provide a national minimum income guarantee, established by Congress at 99 percent of the cost of the Thrifty Food Plan [21] for the relevant family size and paid in the form of food stamps.

Maximum monthly benefits per household (July 1983–September 1984) are $253 for four persons, $199 for three persons, $139 for two persons. These amounts are, respectively, 31, 31, and 27 percent of the 1982 poverty thresholds.

The official poverty thresholds are based on food prices and represent three times the cost of the 1961 Economy Food Plan of the Department of Agriculture (DOA) (for single persons and families of two, a slightly higher multiple is used), updated annually to reflect changes in the CPI. Current law provides for annual updating of food stamp maximum benefits, too, in October, but from January 1, 1981 through June 1982 they were frozen and thus represented a diminishing percentage of poverty thresholds.

[21] Successor to the economy food plan.

Eligibility and poverty

To receive food stamps, all households must pass a countable income test. Households without an elderly or disabled member also must pass a gross income test.

The countable income limit is 100 percent of the Federal poverty guideline for a household of given size.[22] In July 1983–June 1984, the countable income limits for food stamps are $405 monthly for one person, $545 for two; $685 for three; and $825 for four. Except in the case of a three-person household, these limits are close to the respective 1982 poverty thresholds of the Census Bureau: $408, $523, $641, and $822.

The program's gross income limit (not applied to households with an elderly or disabled member) is 130 percent of the Federal poverty guideline.

Thus, unless a household has an elderly or disabled member, its disregarded income cannot exceed 30 percent of the poverty guideline. All households are granted a standard deduction ($89 monthly, as of October 1983). Some also receive a deduction for the cost of excess shelter and/or dependent care (not to exceed $125, as of October 1983) and, if elderly or disabled, for the cost of some medical care. Further, a portion of earnings is disregarded (see below). Thus, the amount of gross income (130 percent of the Federal poverty guideline) that translates into the allowable sum of counted income for non-aged, nondisabled households (100 percent of the Federal poverty guideline) varies by household.

Earnings and poverty

The food stamp program disregards 18 percent of earnings (20 percent before P.L. 97–35). However, as noted before, the earnings disregard, combined with other "uncounted" income, cannot exceed 30 percent of the Federal poverty guideline. Otherwise, the gross income limit would be exceeded.

The effect of the gross income rule is to prevent full use of the earnings disregard, and, thus, to lower the eligibility ceiling for workers. This reduces the financial incentive for work but also lowers food stamp expenditures on behalf of the nonpoor.

For example, the gross income limit now is $1,073 monthly for a family of four. If there were no gross income limit, the benefits would not be fully phased out until:

(a) Gross earnings of $1,289, if the family qualified for the maximum excess shelter-dependent care deduction of $125 (and the standard $89 deduction).

(b) Gross earnings of $1,259, if the family qualified only for a child care deduction of $100 (and the standard $89 deduction).

The amounts in examples (a) and (b) are 157 and 153 percent, respectively, of the 1982 thresholds for a four-person family.

The gross income ceiling causes an abrupt and sharp loss in food stamp benefits as earnings climb over it. Below the ceiling, food stamp benefits are reduced gradually, by 30 cents per counted

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[22] The Federal poverty guidelines, issued in late winter or early spring each year, are based on the Census Bureau's poverty thresholds, and the two measures are virtually identical for four-person families.

extra dollar. But when the ceiling is pierced, benefits are cut by more than the full amount of the extra dollar.

For example, under current law a four-person household with earnings of $1,073 monthly [23] (and maximum excess shelter-dependent care deductions) is eligible for food stamp benefits of $53. But if earnings rise to $1,074, benefits drop to zero, as eligibility is forfeited.

The sharp drop in income, caused by the abrupt loss of food stamps, can be seen in table 10 which shows benefits of a working Pennsylvania mother with two children. At earnings of $10,000, she receives food stamp benefits of $698 as a supplement. The food stamp program imposes a gross income cutoff for her family size (3 persons) at $10,692. If she earns $10,690, she is eligible for approximately $528 in food stamps. If she earns $10,693, she is ineligible for food stamps.

Before 1979, the food stamp program imposed no gross income ceiling, and the benefit cutoff was reached by a smoothly tapered phaseout. As noted before, the food stamp program then was essentially a negative income tax, which guaranteed that no one would have to spend more than 30 percent of his countable income for food.

UNEMPLOYMENT COMPENSATION (UC)

The Social Security Act created the unemployment compensation (UC) system in 1935. The U.S. Department of Labor oversees the programs and pays for administrative expenses. Each State administers its own programs. Over the years the system has evolved into a complex set of programs designed to:

(1) provide temporary and partial wage replacement to involuntarily unemployed workers; and

(2) serve as an automatic stabilizer to the economy, with unemployment benefits increasing and unemployment taxes decreasing whenever the economy declines.

The system covers about 88 percent of all employed persons, but fewer than 40 percent of the unemployed presently qualify for benefits. Fewer than half of the unemployed do not qualify because they:

(1) lacked enough recent employment and earnings to meet State requirements;

(2) were disqualified for quitting their last job, refusing suitable work, misbehaving on the job, or other reasons;

(3) ran out or "exhausted" their benefits, or

(4) had not worked in covered employment.

Benefits

Benefits paid by the UC system fluctuate from year-to-year with unemployment. In August 1983, the Department of Labor estimated benefits paid at about $30 and $20 billion in fiscal years (FY)

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[23] Gross earnings of $1,073 are regarded as counted earnings of $666. (Disregarded: $193, which is 18 percent of earnings; the standard deduction of $89; and the maximum excess shelter-dependent care deduction of $125.) Program rules require that 30 percent of counted income be deemed available for food. Thus, the family is expected to spend $200 for food and is eligible for $53 in food stamps, so as to have a total of $253 for food purchases.

1983 and 1984, respectively. Estimated benefits paid in 1983 roughly account for 3 percent of the Federal budget outlays. Benefits to individuals paid in FY 1983 have averaged about $121 per week.

The States determine the size of benefits, usually setting the weekly benefit between 50 percent and 70 percent of a worker's average weekly wage up to a maximum of between 50 percent and 70 percent of the State's average weekly wage. The Federal Government sets no minimum or maximum benefit level.

The maximum period of benefit eligibility ranges from 34 to 65 weeks, depending on the State unemployment levels. This is provided under three programs:

(1) Regular State programs usually provide up to 26 weeks;

(2) Federal-State extended benefits (EB) may add up to 13 weeks if the State insured unemployment rate is high enough to activate the extension in that State; and

(3) Temporary Federal supplemental compensation (FSC) adds another 8, 10, 12, or 14 weeks in all States, depending on the level of unemployment in the State. Before April 1, 1983, some individuals could have received up to 16 weeks of FSC plus 10 additional weeks after March 31, 1983, but before September 30, 1983, for a combined maximum of 65 weeks (26, 13, 16, and 10).

About 36 percent of the 10.4 million persons unemployed in August 1983, or about 3.8 million, received UC.

(1) 2.860 million received regular UC;

(2) 0.057 million received extended benefits;

(3) 0.763 million received Federal supplemental compensation; and

(4) 0.095 million received benefits in the Federal programs that are not part of the Federal-State UC system. These are for railroad, Federal civilian, and ex-military personnel.

Comparison of 1982 benefits with mid-1970's

Figure 15 presents actual and projected real (1982 dollars) unemployment compensation (UC) benefits paid from calendar years 1971 through 1982 and projected outlays for FY 1983 through FY 1988. In August 1983, the U.S. Department of Labor estimated FY 1983 outlays at about $30 billion, or about $29 billion in real terms. This was an estimated $15 billion or 34 percent lower than would have been spent if the system had compensated the unemployed in proportion to the levels paid in 1976.[25]

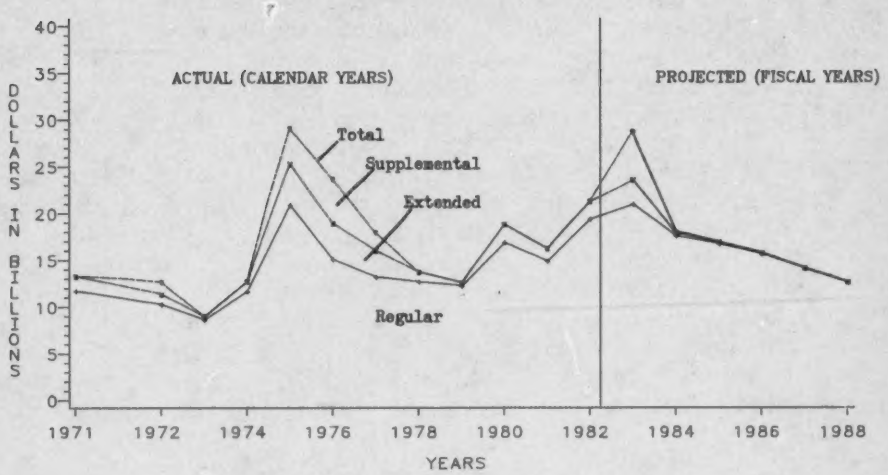
Since 1979, there has been a dramatic drop in the fraction of unemployed persons receiving UC. Figure 16 shows this drop in the average percent of unemployed persons receiving UC by month for the calendar years 1974 through 1977 compared to 1980 through August 1983. During 1974 through 1977, this percent averaged be-

[25] This estimate was based on a comparison year that began in October 1975 and ended with September 1976. It is not a fiscal year because fiscal years were determined from July through June until September 1976. The comparison year contains, therefore, the second, third, and fourth quarters of fiscal year 1976, and the transition quarter. The U.S. Department of Labor estimated fiscal year outlays at $30 billion, or $29 billion in 1982 dollars. The proportion of the unemployed compensated in the first 11 months of fiscal year 1983 averaged 47 percent contrasted with 71 percent in the comparison year. If the unemployed had been compensated in the same proportion in fiscal year 1983 as the comparison year, real outlays would have been $44 billion (29 x .71)/.47=44). Thus, $44 billion minus $29 billion is $15 billion.

tween 54 and 70 pecent, but from 1980 through August 1983 it averaged 41 to 51 percent.

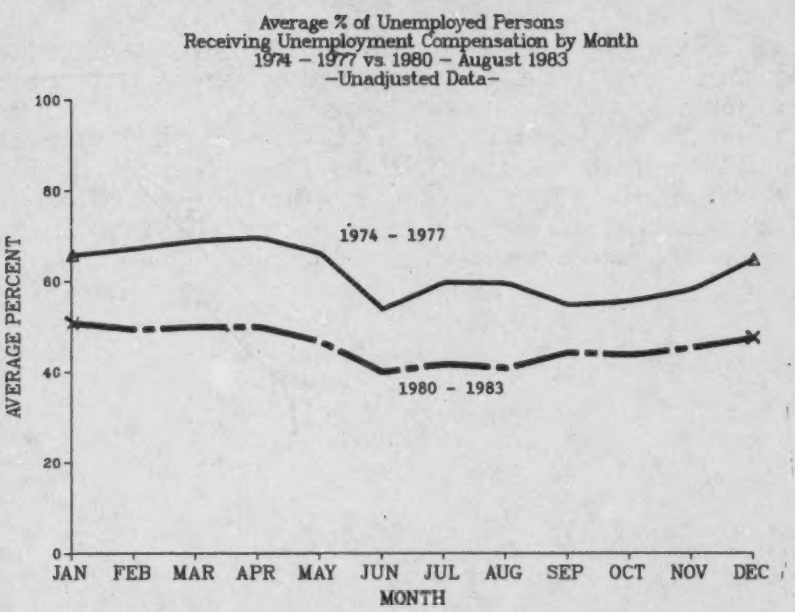
FIGURE 15

REAL UNEMPLOYMENT COMPENSATION BENEFITS, ACTUAL AND PROJECTED
(CONSTANT 1982 DOLLARS)



SOURCE: NATIONAL COMMISSION ON UNEMPLOYMENT COMPENSATION, SECOND REPORT, JULY 1979, CHART 2 AND UNEMPLOYMENT INSURANCE SERVICE, UI OUTLOOK, AUGUST 5, 1983

FIGURE 16



Source: USDOL, ETA, UIS, Division of Actuarial Services

Approximately $11 billion of the estimated $15 billion gap between 1983 and 1976 probably resulted from the lack of compensation for workers who would have been eligible to receive benefits in 1976. The remaining $4 billion probably resulted from demographic and industrial change that reduced the fraction of unemployed persons eligible for UC. The influx of women and youth plus the shift toward service sector employment in the last 20 years increased the overall labor turnover rate.[26] This probably reduced the fraction of unemployed persons getting UC because these workers qualify for UC at lower rates than men, and they tend to have fewer weeks of employment and lower earnings on which to base UC eligibility.

The $11 billion gap that probably would have been paid under 1976 policies has two main components: (1) about $7 billion would have been paid under the regular State programs;[27] and (2) about $4 billion would have been paid under the extended benefits (EB)

[26] See Gary Burtless, "Why Is Insured Unemployment So Low?" Brookings Papers on Economic Activity, 1:1983, pp. 233–234, for a discussion of this trend.

[27] Burtless estimated that ". . . in an average week in 1982, about 1.1 million fewer workers received regular UC benefits than would have been expected on the basis of previous historical experiences." Ibid., p. 236. If this were true in fiscal year 1983, then benefits would be lower by about $7 billion. The 1.1 million persons times 52 weeks times an average weekly benefit amount of $121 times a downward adjustment for inflation is about $7 billion.

program and perhaps, a more generous supplemental compensation program.[28]

The $7 billion gap associated with the regular State programs resulted from substantially lower insured unemployment rates (IUR's) for a given total unemployment rate (TUR).[29] Figure 17 shows that the TUR for FY 1983 has been much higher than it was under 1976 policies, yet the IUR was roughly at the same level. Part of the growing difference between the TUR and IUR stemmed from demographic and industrial change, but a portion also resulted from fewer job losers receiving regular State benefits.

FIGURE 17

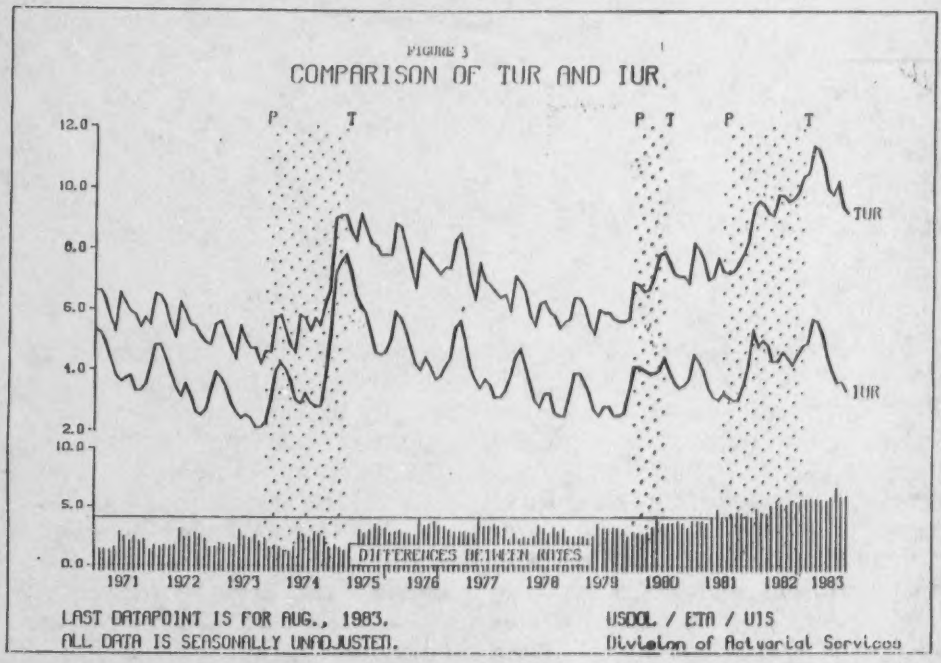


Figure 18 compares total unemployment (TU) to the number of job losers (JL) and insured unemployment as measured by the average monthly number of weeks of UC claimed (WC). Between 1967 and 1980, the number of job losers (JL) tracked closely to the number of weeks claimed (WC). From 1980 through 1983, however, these figures diverged substantially. For FY 1983, weeks claimed averaged about 3 million fewer persons than job losers. If only 3 out of 5 of these job losers had been compensated, outlays would have been over $11 billion higher in FY 1983.[30]

[28] See also a forthcoming paper by Wayne Vroman, "The Reagan Administration and Unemployment Insurance," The Ubran Institute, that will provide more sophisticated estimates.

[29] The insured unemployment rate (IUR) is the percent obtained from the ratio of the number of insured unemployed persons in the regular State programs to covered employment under the UC system. The total unemployment rate is the percent obtained from the ratio of unemployed persons (insured and uninsured) to the labor force. The labor force is the sum of the unemployed and employed. See Burtless, *op. cit.*, pp. 229–231 for a technical discussion of these definitions.

[30] This figure is the product of 60 percent, 3 million persons, 52 weeks, and the averaged weekly benefit amount for FY 1983 of $121.

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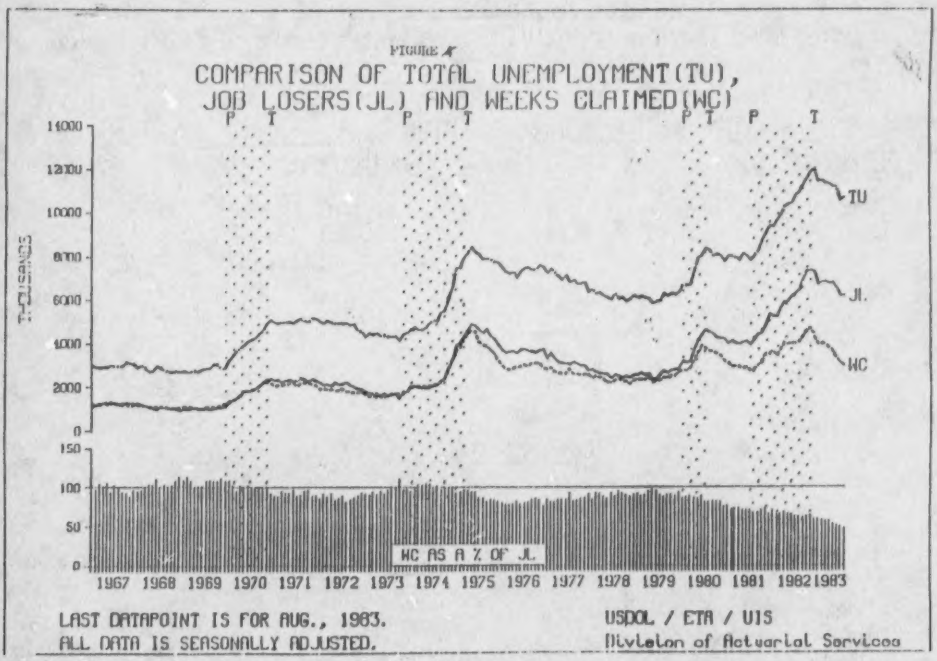
The estimated gap of $4 billion in the extended and supplemental programs derived primarily from the budget cuts in the Omnibus Budget Reconciliation Act of 1981 (OBRA).[31] This also stemmed from fewer persons qualifying for the regular State programs who might have qualified for extended and supplemental compensation under 1976 policies.[32]

FIGURE 18



Various factors could explain why fewer job losers qualify for UC: (1) State UC laws and administrative practices may have tightened since 1979 in response to financial problems in the State programs. (2) Federal law has cut UC benefits to the long-term unemployed and to pensioners, and has applied the Federal income tax after 1978 to a portion of UC claimants. (3) Because 3 years of economic stagnation in 1980 through 1982 may have limited the amount of work job losers could get, they may not have qualified for benefits. Burtless could find no strong evidence for (1) and (3). He concluded that (2) must explain the drop in insured unemployment.[33] Except for the obvious budget cuts in extended benefits, however, this phenomenon remains a puzzle.

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[31] This estimate compares to $3.7 billion in current FY 1983 dollars estimated by the Congressional Budget Office in February 1982. See U.S. Congress, House Committee on Ways and Means, *Background Material and Date on Major Programs within the Jurisdiction of the Committee on Ways and Means*, 97th Congress, 2nd session (Washington, D.C.: U.S. Government Printing Office, 1982), p. 309.

[32] Burtless estimated that the relatively lower regular State program benefit claims accounted for less than half of the lower extended and supplemental compensation claims. Burtless, op. cit., p. 224.

[33] Ibid., pp. 239–246.

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Impact of additional UC benefits upon the poverty rate

A relatively small addition to UC outlays probably would not lower the official poverty rate significantly, especially if the Congress did not aim the benefits at the long-term unemployed who have *not* received any UC in the last year. Table 13 summarizes the extent of poverty among persons who experienced unemployment during 1982. Only 21 percent of the 26.5 million persons were classified as poor. Those who received UC, moreover, were less poor than those who did not. Only 9.9 percent of UC claimants were poor compared to 26 percent of the unemployed who did not receive UC.[34]

TABLE 13.—RELATIVE DISTRIBUTION OF UNEMPLOYED PERSONS BY RECEIPT OF UNEMPLOYMENT COMPENSATION (UC), DURATION OF UNEMPLOYMENT, AND POVERTY IN 1982

	Percent			Total number (in thousands)
	Poor	Nonpoor	Total	
Total	21	80	101	26,493
Received UC:				
Unemployed fewer than 27 weeks	7	93	100	6,282
Unemployed at least 27 weeks	19	81	100	2,324
No duration data available	3	98	101	476
Subtotal	NA	NA	NA	9,082
Did not receive UC:				
Unemployed fewer than 27 weeks	22	78	100	12,296
Unemployed at least 27 weeks	41	59	100	4,436
No duration data available	4	96	100	679
Subtotal	NA	NA	NA	17,411

The long-term unemployed were proportionately more poor than the short-term unemployed. For those who received UC, persons unemployed at least 27 weeks had a poverty rate of 19 percent, 2.7 times higher than those unemployed fewer than 27 weeks. In contrast, those who did not receive any UC and were unemployed at least 27 weeks had a poverty rate of 41 percent, which was six times the rate for persons who received UC and were unemployed fewer than 27 weeks.

SOCIAL SECURITY

Social security is a social insurance program which partially replaces income lost when a worker retires, becomes disabled, or dies. In addition to payments to retired workers, social security pays

[34] According to administrative data, approximately 16 million persons received UC in 1982 compared to only 9 million counted in the March 1983 Current Population Survey (CPS). Thus, the CPS undercounted UC recipients by about 45 percent. Since those not reporting UC are likely to have lower incomes than those reporting UC, the true percent of UC claimants in poverty may exceed this estimate.

cash benefits for the dependents of retired workers, the survivors of deceased workers, and disabled workers and their dependents.

A worker builds protection under the social security program through employment covered under the law. Coverage is generally compulsory. Contributions on workers' earnings up to a statutory maximum each year are withheld and matched by employers.

Generally, social security benefit levels are related to the amount of past earnings of individuals in work covered under the program. They are paid as an earned right and without a test of need. Benefits for dependents and survivors are calculated as a percentage of the insured worker's basic benefit. Benefits payable to workers, spouses, widows and widowers who receive them before age 65 are subject to an actuarial reduction to take account of the increased amount of time that these individuals would be receiving benefits.

Benefit levels

Benefits vary based on an individual's history of earnings. For example, an aged 65 individual retiring in 1983 who always received the maximum creditable earnings is paid $709 per month. A similar individual who always earned the Federal minimum wage, however, receives $368 per month. Average monthly benefits for different categories of beneficiaries in July, 1983 were:

Average benefits in current pay status—July 1983

Retired worker alone	$413
Retired couple	712
Aged widow or widower	381
Young survivor family	911
Disabled worker alone	426
Disabled worker and family	841

The level of social security benefits has grown in real terms over the years, because of the growth in wage levels and across-the-board benefit increases. In 1967, the average retired worker benefit in 1983 dollars was $255, whereas today it is $413. From 1967 to 1982, the percentage of aged persons living in poverty has dropped from 29.5 percent to 14.6 percent.

Poverty impact

Social security has made a substantial contribution to raising people's incomes above poverty. If there were no social security and no other income took its place, it is estimated that there would be three and one-half aged poor persons for every one we now classify as poor. In other words, social security cuts the incidence of poverty among the aged by 71 percent. Although about two-thirds of social security recipients are aged, payments to the aged and non-aged together in 1982 probably kept 13.8 million persons of all ages out of poverty. Nearly 9.3 million of these would-be-poor are persons age 65 or older. In addition, beneficiary households that are poor even after receiving social security would be more poor without it. Data for the year 1982, for example, indicate that social security cash benefits cut the aggregate poverty gap between the

amount of income families and unrelated individuals had and the amount they needed to escape poverty by 87.2 percent for the aged.

Nevertheless, a general increase in social security benefits to combat poverty would be inefficient. About 90 percent of families and unrelated individuals receiving social security benefits are not officially counted as poor. In other words, only 9 percent of the recipients of the increase would be the intended target. To grant the social security increase only to the poor, however, would require a means test, which traditionally has been avoided in social security. A less wasteful anti-poverty measure might be to increase the benefits under means-tested programs, such as supplemental security income.

PUBLIC SERVICE EMPLOYMENT[35]

As a vehicle for reducing poverty, public service employment can be viewed in two ways: (1) as a way to provide jobs to the poor and improve their *current* income; and/or (2) as a way to improve poor people's *long-term* earning potential, as well as their current income.

If the desired outcome is to increase the current income of unemployed poor persons without regard to their future earning potential, this can be achieved by restricting eligibility for PSE jobs only to unemployed persons with family incomes at or below the OMB poverty line. The level of income to be provided can be determined by establishing average wage rates to be paid in the program. It should be noted also that PSE provides participants with certain fringe benefits, such as access to group medical insurance, which they might not otherwise receive, especially if they are not AFDC recipients and therefore not eligible for medicaid in many States.

If the desired outcome, however, is to increase the long-term earning potential of poor people with chronic employment problems, the program could be very specifically targeted on certain segments of the poor. For example, evaluations of past PSE programs under CETA found that women and people with very low pre-program earnings tended to benefit the most, in terms of increased earnings, after participation in the program. Researchers suggest that the increase in earnings for these two groups was due primarily to an increase in the number of hours worked, rather than an increase in the hourly wage. As a result, people who had a relatively stable attachment to the workforce but who chronically earned low wages did not benefit as much from participation in a public employment program. This latter group is predominantly male, according to the research. These findings also applied to participants in traditional training programs for the disadvantaged operated under CETA.

Eligibility for PSE jobs therefore, could be very narrowly targeted on unemployed poor people with no more than a certain number of hours worked during the previous 6 months or year. Data in section 6, table 1, show that in all forms of households, the incidence of poverty increases as the number of hours worked goes down. Al-

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[35] Public service employment (PSE) was a major activity under the Comprehensive Employment and Training Act (CETA). It employed a peak of more than 750,000 persons in 1978 and outlays in fiscal year 1978 totalled $5.8 billion.

ternatively, eligibility could be targeted on poor people who have been unemployed for longer periods. Data in table 13 indicate that people unemployed 27 weeks or more, regardless of whether they receive unemployment compensation, are more likely to be poor than those unemployed for shorter periods of time. Unemployment insurance recipients unemployed 27 weeks or more in 1982 were 2.7 times as likely to be poor as UI recipients unemployed for less than 27 weeks. People who were unemployed 27 weeks or more and did not receive UI payments were almost twice as likely to be poor as people who were unemployed for shorter periods of time and not receiving unemployment compensation.

Restrictive targeting in public service employment also reduces the rate of "substitution" in the program, which aroused controversy in past PSE programs. Substitution refers to the practice of local governments replacing their regular public employees with federally subsidized participants in a public service employment program, thereby substituting Federal dollars for local dollars and resulting in little or no net job creation. However, evaluations of the 1978 amendments to CETA, which targeted PSE more strictly on the economically disadvantaged, found that local officials were much less tempted to substitute public service employees for their regular workers when the program was highly targeted on the poor and unskilled. However, the value to the community of the work performed by public service employees also decreased somewhat as a result of the tighter targeting. Further, the extent to which extremely disadvantaged individuals would have improved their situation over time without the intervention of a public service employment program is not known.

Section 6. EMPLOYMENT STATUS OF THE POOR AND NEAR-POOR

Earnings in the form of either wages or salaries are a primary determinant of whether a family will be poor. The question arises: How involved in the labor force are the poor, the near-poor, and the nonpoor? Certainly levels of employment are much lower among the poor and the near-poor than among others. Labor force involvement is not just a yes/no question of gaining employment, but rather, a matter of degree. Both the number of hours worked, and the level of compensation for those hours worked, are important factors relating to whether a family will be poor.

The following tables present Census data on different levels of involvement in the labor force. Table 1 illustrates the association between labor force involvement and poverty. It makes clear the particularly severe situation confronting female-headed families. Table 2 examines median wage rates and median annual hours of work compared to poverty levels. It illustrates the differences between blacks and whites [1] in comparable labor force and poverty situations.

[1] Hispanics are not counted in either group for this analysis.

TABLE 1.—CURRENT POPULATION SURVEY DATA ON POVERTY AND WORK IN 1982: THE LEVEL OF POVERTY COMPARED TO THE LEVEL OF INVOLVEMENT IN THE LABOR FORCE FOR FAMILIES WHERE THE PRIMARY WORKER IS 65 YEARS OR LESS [1]

[Percents across each row total 100]

Ratio of income to the poverty level	Worked 4,000 or more hours in 1982	Worked 2,000 to 4,000 hours in 1982	Worked 1,000 to 2,000 hours in 1982	Worked 500 to 1,000 hours in 1982	Worked 40 to 500 hours or looked for work 1 or more weeks in 1982	No one working or looking in 1982	Total families
Two or more worker families:							
Under poverty	4	41	35	14	7	0	458,668
1.0 to 1.50	10	63	19	4	4	0	959,938
1.50 to 2.0	15	69	12	2	2	0	1,522,744
2.0 or more	43	53	3	0	0	0	17,679,043
Total families	8,035,352	11,218,929	1,013,772	200,848	141,572	9,920	20,620,393
Mean poverty gap per capita for families underr poverty	$489	$575	$871	$1,025	$1,033		$750
Single worker families—not female headed:							
Under poverty	1	18	19	11	23	27	2,154,920
1.0 to 1.50	1	39	24	8	5	21	1,885,288
1.50 to 2.0	1	54	21	5	4	14	2,178,254
2.0 or more	2	72	14	3	2	8	11,417,132
Tctalfamilies	339,593	10,510,469	2,917,571	802,086	890,215	2,175,660	17,635,595
Mean poverty gap per capita for families under poverty	$882	$633	$786	$1,094	$1,429	$1,352	$1,076
Single worker families—female headed:							
Under poverty	0	5	12	8	20	54	3,336,135
1.0 to 1.50	0	36	31	9	5	19	1,113,094
1.50 to 2.0	0	51	26	4	4	15	935,502
2.0 or more		61	24	3	3	11	2,870,044
Total families	3,393	2,793,380	1,659,672	499,751	833,067	2,465,510	8,254,774
Mean poverty gap per capita for families under poverty		$594	$880	$1,222	$1,684	$1,602	$1,407
Unrelated individuals:							
Under poverty	0	5	16	13	24	41	3,754,217
1.0 to 1.50	0	19	38	12	10	21	1,873,412
1.50 to 2.0	0	43	34	8	4	10	1,981,762
2.0 or more	0	71	21	2	1	4	10,497,320
Total unrelated individuals	56,974	8,814,172	4,213,992	1,108,059	1,303,976	2,609,537	18,106,711
Mean poverty gap per capita for unrelated individuals under poverty		$1,536	$1,371	$1,922	$3,241	$2,759	$2,482
Total families	8,435,313	33,336,950	9,805,007	2,610,744	3,168,830	7,260,627	64,617,472

[1] The level of involvement in the labor force, for a family, is defined by the number of hours worked by the head of the family and his/her spouse. Two groups are excluded from this analysis—(1) Unrelated individuals under 18 years old, and (2) families where the primary worker is self-employed. The "Primary Worker" is the one who works the most hours, not necessarily the one who makes the most money.

Source: March 1983 Current Population Survey (CPS)—Census Bureau. Poverty Ratios based upon Census (Orshansky) Poverty Levels. Projections based on family or individual counts of less then 100,000 may be unreliable due to small sample size. Table prepared by the Congressional Research Service (CRS).

TABLE 2.—CURRENT POPULATION SURVEY DATA ON POVERTY AND WORK IN 1982: MEDIAN HOURS AND MEDIAN WAGE RATES FOR FAMILIES WHERE THE PRIMARY WORKER IS 65 OR LESS, BY POVERTY STATUS [1]

Ratio of income to the poverty level	Median wage in 1982	Median hours worked in 1982	White median wage in 1982	White median hours worked in 1982	Black median wage in 1982	Black median hours worked in 1982
Two or more worker families:						
Under 1 of poverty	$3.38	1,810	$3.11	1,680		
1 to under 1.50	4.38	2,530	4.42	2,392	4.23	2,900
1.50 to under 2	5.18	2,780	5.25	2,696	5.05	3,120
2 of poverty or more	8.75	3,800	8.90	3,780	7.96	3,900
Total	8.22	3,640	8.46	3,640	7.16	3,744
Single worker families—not female headed:						
Under 1 of poverty	3.85	1,040	3.75	1,000	3.85	1,040
1 to under 1.50	5.33	2,028	5.36	1,976	5.20	2,000
1.50 to under 2	6.84	2,080	6.95	2,080	6.33	2,080
2 of poverty or more	11.54	2,080	11.54	2,080	9.38	2,080
Total	9.38	2,080	9.80	2,080	6.33	2,080
Single worker families—female headed:						
Under 1 of poverty	3.35	646	3.33	650	3.40	645
1 to under 1.50	4.40	1,880	4.33	1,820	4.50	2,000
1.50 to under 2	5.47	2,080	5.38	2,080	5.49	2,080
2 of poverty or more	7.45	2,080	7.37	2,080	7.69	2,080
Total	5.38	1,976	5.77	2,000	4.81	1,820
Unrelated individuals:						
Under 1 of poverty	3.08	680	3.03	750	3.03	440
1 to under 1.50	3.70	1,440	3.84	1,400	3.39	1,710
1.50 to under 2	4.57	1,976	4.58	1,920	4.57	2,080
2 of poverty or more	8.55	2,080	8.65	2,080	7.98	2,080
Total	6.82	2,080	7.05	2,080	6.00	2,021
Total (families and individuals)	7.70	2,080	8.15	2,080	6.07	2,080

[1] The level of involvement in the labor force, for a family, is defined by the number of hours worked by the head of the family and his/her spouse. Two groups are excluded from this analysis—(1) Unrelated individuals under 18 years old, and (2) Families where the primary worker is self-employed. The "Primary Worker" is the one who works the most hours, not necessarily the one who makes the most money.

Source: March 1983 Current Population Survey (CPS)— Census Bureau. Poverty Ratios based upon Census (Orshansky) Poverty Levels. Projections based on family or individual counts of less then 100,000 may be unreliable due to small sample size. Table prepared by the Congressional Research Service (CRS).

Involvement in the labor force is measured as the number of hours worked during 1982. Within families, the hours of primary workers—the head of the family and his/her spouse—are added together to reflect the family's involvement in the labor force. The maximum involvement for a multiple worker family would be two full-time workers, i.e., over 4,000 hours of work per year. Maximum involvement for single worker families and single individuals would be 2,000 hours per year. In addition to using the total annual hours worked as a measure of labor force involvement, the median number of hours worked is used to show the 50-percent mark for a particular group. The median number of hours worked is that level where 50 percent of the workers had more hours and 50 percent had less.

To measure poverty against labor force involvement, two indicators are used. First, poverty ratios are used to indicate to what

degree families or individuals are above or below the poverty line. Second, the mean poverty gap is used to indicate the average per-capita dollar level for those families who are below the poverty line.

In addition to measuring poverty and labor force involvement, the median hourly wage for workers at different levels of poverty is presented as a measure of a worker's success in the labor force.

Given these different measures, what can be gleaned from this information? Tables 1 and 2 present data on families and individuals where the person working the most hours is less than 65 years old. Table 1 shows, for example, that the poor are less likely to work than are the nonpoor, and that they are paid less for the hours they do work. Clearly, the majority of two worker families with the equivalent of one full time worker (2,000 or more hours) are not very likely to be poor. Only about 1 percent of these families had incomes below the poverty line. Less than 4 percent were near-poor, i.e., below 150 percent of the poverty line. However, among those families that were poor, about 45 percent worked 2000 or more hours. Only about 7 percent of these families reported less than 500 hours of work or no work during the year. In comparison, about 96 percent of all two worker families with incomes in excess of two times the poverty line worked 2000 hours or more. The degree of poverty was less severe for families with two or more workers than for other types of poor families. The mean per person poverty gap for these families was $750,[2] the smallest amount below poverty of any group of families or individuals, regardless of labor force attachment.

Poor single worker families, excluding poor female-headed families, worked considerably fewer hours than poor two worker families. In about 19 percent of these families, a primary worker worked 2,000 or more hours. In about 50 percent of these families, the worker worked fewer than 500 hours. In comparison, among single worker families with income greater than twice the poverty line, about 74 percent worked 2,000 or more hours. Primary workers in poor single worker families had a median wage of $3.85 per hour, about one-third that of primary workers in single worker families with incomes in excess of two times the poverty line—$11.54 per hour.

Of the 8.3 million female headed families 3.3 million or 40 percent were below the poverty line. Among those female-headed families with little or no labor force involvement, the poverty rates were 80 and 73 percent respectively. Of female headed families below poverty, 74 percent had limited or no labor force involvement. At the same time only 14 percent of female-headed families at income levels twice the poverty line had limited or no labor force involvement. The same pattern holds for wages and hours. For those poor female headed families with at least some labor force involvement the median wage was $3.35 per hour compared to a median wage of $7.45 per hour for female-headed families with incomes greater than twice the poverty line. Poor female-headed families had median annual hours of 646 or about four months

[2] Of those families who were poor, $750 per family member would be required, on average, to bring the family's income up to the poverty line.

work. Female-headed families at 150 percent of poverty or more had median annual hours of 2,080 or twelve months.

As would be expected, poor families and individuals with no labor force involvement had incomes well below the poverty threshold. For unrelated individuals and female-headed families the per capita poverty gap was $2,759 and $1,602, respectively, and 59 and 73 percent were in poverty.

Table 1 shows that families and individuals with at least some labor force involvement, i.e., either 40 to 500 hours of work annually or 1 week of looking for work, actually have higher poverty rates, than families and individuals with no labor force involvement. People totally out of the labor force appear to be drawing on other souces of income such as, disability insurance or social security.

Race, Poverty and Labor Force Involvement

Table 2 indicates that for those people below the poverty line, race plays very little role. In female-headed families, below the poverty line, blacks have a slightly higher median wage than whites, but slightly lower median annual hours worked. The difference between the races continued to fluctuate slightly among the other types of families and individuals who were below the poverty line. Black unrelated individuals are an exception, having considerably fewer hours of work (1440) than whites (750). Otherwise, both races are experiencing low wages and low hours in a fairly equivalent manner. The same pattern of slight fluctuations appears among near-poor workers.

Among those families and individuals further from poverty this pattern almost totally disappears. Blacks have consistently lower wage rates than whites and either equivalent or lower labor force involvement. The one exception is female-headed families where blacks have consistantly higher wage rates and equivalent or higher labor force involvement.

These patterns and trends should not be construed as indicating that blacks and whites suffer equally from poverty. Although the labor force involvement is similar for both races for those below 150 percent of the poverty line, the percentage of each race below that point differs markedly. Among blacks 46 percent of the families and individuals were below 150 percent of the poverty line while only 19 percent of whites were below this level.

Overall, it can be seen from these tables that the poor and near-poor suffer not only from unemployment, but also from limited hours and limited pay when they are employed. It is clear that those families and individuals with more hours and/or more than one worker face the least threat of living in poverty.

Section 7. ISSUES RELATING TO FEDERAL POVERTY DEFINITIONS AND THEIR USE

Although the current statistical [Census Bureau] and administrative [OMB] Federal poverty definitions have come to be widely accepted and used, a number of characteristics of the poverty definitions and the way they are used are controversial. Before a discussion of these issues, two general points are worth mentioning.

It must be remembered that the original Orshansky poverty thresholds were developed, from then-existent data, for a limited analytical purpose: Measuring changes in the low-income population over time, particularly changes in the population of families with children. However, they have now come to be used for a wide variety of purposes—from formula grants to individual income eligibility decisions—for which they were not intended.

Moreover, now that the existing poverty definitions have become embedded in Federal planning and program rules, any change in the poverty definitions now in use would have significant implications for the Federal budget in the noncash benefit programs that use them, for States and localities in some formula-grant allocation programs, and for the population groups served by Federal programs.

Issues Related to the Poverty Definitions

Absolute versus relative standards

The choice between absolute and relative poverty thresholds largely depends on a value judgment. Should society distribute income so that economic units do not fall below some absolute living standard or some standard compared to other members of society? If one accepts an absolute standard, then general economic growth will lower the poverty rate *by definition.* Alternatively, if one adopts a relative standard, general economic growth will not affect the poverty rate unless society substantially redistributes income toward relatively low-income economic units.

> Poverty can mean not having enough. Or it can mean having a lot less than most people. The two approaches are quite different. The first is absolute in nature. It is pragmatic, a kind of minimal standard of living * * *. Or, put another way, it is a market basket with enough food, clothing, and shelter, plus a few extras, to enable you to get by. The second approach, "having a lot less than most people," is relative. It relates the incomes of the non-poor to the poor. Thus, it changes as standards of living change. The difference between the two approaches is more than philo-

sophical. It is significant with regard to public policy and the evaluation of such policy.[1]

In its definitions of poverty, the Federal Government has chosen to use an absolute, consumption-based definition of poverty: "A market basket with enough * * * to enable you to get by" albeit a quasi-market basket in which only food costs are specified and other needs taken into account indirectly. An absolute market-basket poverty standard has at least four advantages: (1) it has proven relatively easy to create and convenient to use and understand; (2) the living standard it uses to measure poverty is relatively explicit; (3) it is adjustable for price changes; and (4) it is adaptable to family/household size differentiation. Because it is absolute, even with adjustments for price changes, poverty would eventually be statistically wiped out using this type of standard if income growth proceeds ahead of inflation. This, of course, is in accord with the tenor of the poverty debate of the 1960's, when the current definitions were created and adopted—that is, a "war" to *end* poverty.

The strengths of an absolute market-basket standard make it appealing for many uses, in addition to counting the poor and analyzing their characteristics, especially in determining eligibility for income-related assistance programs. These programs are usually intended to help recipients meet living costs and a measure of poverty based on living costs makes common sense. However, its basic weaknesses—lack of an explicit allowance for improvement in living standards, and its concentration on necessary expenses rather than comparative incomes—mean that it may not, in the long run, correspond with the public perception of poverty.

A relative poverty standard compares living standards and reflects changes in living standards over time. The most frequently mentioned type is one which defines poverty as an income level set at a proportion of the median income.[2] In addition to implicitly recognizing living standard changes and, thus, changes in the perceived poverty standard,[3] a relative, income-based standard has the strength of explicitly recognizing the subjective nature of any poverty standard. Its major weaknesses are: (1) a certain, though not insurmountable, difficulty in adjusting for family/household size differences and, if desired, regional differences; (2) a failure to recognize that income-level differences do not necessarily correspond to living-standard differences; (3) an implication that there is a relatively constant proportion of the population in poverty, barring major shifts in income distribution;[4] and (4) the threat that it might destroy much of the usefulness of poverty standards in analyzing changes over time. In effect, a relative poverty definition represents the view that "poverty," in the sense of "having a lot

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[1] Stein, Bruno. "On Relief." (Basic Books, 1971), p. 5.

[2] For further discussion see "The Measure of Poverty: Technical Paper XIII, Relative Poverty." (U.S. Department of Health, Education, and Welfare, 1976).

[3] An absolute market-basket poverty standard could be adjusted to reflect changes in living standards (i.e., changed market baskets). But, the revised market baskets would be difficult to define and there would be the potential that the end result would be the same as an explicitly relative poverty standard.

[4] Of course, if one is looking for precisely such major shifts in income distribution, this might be a strength in a relative poverty standard.

less than most people," may always be with us, unless major shifts in income distribution occur.

The market-basket approach

The existing Federal poverty definitions are based on what might be called a quasi-market basket—that is, only one element of a family's market basket, food, is explicitly considered. As has been already pointed out, this market-basket approach to setting a poverty standard has considerable usefulness, primarily in measuring the proportion of the population that can afford a relatively explicit living standard and serving the eligibility-determination needs of programs providing noncash aid for basic needs. However, the market-basket approach now used has its problems, the solutions to which are difficult.

The dependence on a single element of families' market baskets to define poverty can be criticized as ignoring the actual cost of nonfood necessities. But, although a full poverty market basket might, theoretically, be designed, its nonfood components would be very difficult to reasonably define and price out.[5] Further, since the available data on which a full market basket might be based are, in effect, reflective of average consumption habits, the end result might very well be the same as adopting an explicitly relative poverty standard (see footnote 3). General improvements in the economy (and, perhaps, Federal aid), would not imply lessened poverty, they would more likely increase the poverty standard.

The Federal poverty definitions deal with nonfood expenses by adopting the threefold multiplier indicated by the 1955 food consumption survey. This method of dealing with these expenses has its own problems. It fails to address the question of whether twice the cost of the 1961 economy food plan was actually sufficient to purchase some minimal level of nonfood necessities. The threefold multiplier was simply based on the spending patterns of average families in the 1955 survey. It also does not recognize substantial changes in expenditure patterns since 1955. For example, if the newest [1977–78] household food consumption survey were used in the same way the 1955 survey was used, to establish a multiplier, the percent of after-tax income spent on food would be 27 percent (versus 33 percent in the 1955 survey), implying a multiplier of 3.7 and substantially higher poverty thresholds.[6]

Finally, the market basket "minimum requirements" appearance of the poverty definitions leads to their use for a variety of nonfood-related purposes, from allocation formulas for educational assistance to individual eligibility decisions in employment programs.

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[5] For further discussion see "The Measure of Poverty: Technical Paper IV, Bureau of Labor Statistics Family Budgets Program." (U.S. Department of Health, Education, and Welfare, 1977).

[6] Estimate from staff of the Department of Agriculture's Economic Research Service. If Bureau of Labor Statistics data, from its consumer expenditure surveys, are consulted, a similar drop in before-tax average food spending is indicated—from 20 percent in the early 1960's to 17 percent in the early 1970's. Another way of "updating" the existing poverty standards might be to take another look at the cost of the Department of Agriculture's lowest cost food plan, the thrifty food plan (this replaced the older economy food plan in 1975). Using June 1982 food costs and the original multiplier of three would imply a four-person poverty threshold of about $9,200, versus the 1982 four-person official poverty threshold of $9,862. Using a multiplier of 3.7 would imply a threshold of about $11,300.

Adjusting for family size

The two Federal poverty definitions are adjusted for family size differently. The basic statistical poverty thresholds are adjusted based on the economies of scale inherent in the 1961 economy food plan upon which they were constructed.[7] In effect, this assumes that economies of scale for all necessities behave like those for food, and is a weakness in the existing definition. However, given available data, finding a substantially different alternative would be very difficult.[8]

The OMB poverty guidelines standardize the dollar differences between the Census Bureau thresholds by averaging them in order to produce more easily understood and usable guidelines, and allow for individual guidelines for family sizes larger than nine persons. The OMB guidelines have the weakness of assuming that the cost of necessities for one additional person is a standard amount, no matter what the family size.

Area cost-of-living differences

Other than two arbitrary distinctions made in the OMB poverty guidelines (there are separate guidelines for Alaska and Hawaii based on Federal pay differentials), the Federal definitions of poverty make no differentiation for cost-of-living differences between different areas of the country. Some see this as producing "overestimates" of poverty in some areas and "underestimates" in others. The only available measures of interarea cost-of-living differences are those calculated by the Bureau of Labor Statistics [BLS] in its now-discontinued family budgets program. This index has been suggested for use in varying poverty standards; however, as an objective measure of cost-of-living differences, it has substantial shortcomings.[9]

The hypothetical market baskets used in the BLS cost-of-living index were varied among the areas for which it was calculated to represent a constant level of satisfaction reflective of regional variations in consumption patterns. In order to use the BLS index to vary the poverty standards among geographic areas objectively, it would be necessary to make the assumption that an individual or family would be equally satisfied with all of the market baskets used in different areas. For example, regional variations based on different consumption patterns were incorporated into the food-at-home component of the family budgets priced out in different areas (for example, larger weights might be given to certain types of food in the northeast versus the south). Use of the BLS index derived from the family budgets as an objective measure of area cost-of-living differences would require assuming that a "representative individual" would be equally satisfied with either the northeastern or southern diet. Moreover, the differences in consumption pat-

[7] They also do not incorporate separate family size adjustments for families larger than nine persons, because economies of scale estimates are not pertinent.

[8] The Bureau of Labor Statistics used a similar approach to estimating economies of scale in its family budgets program. For further discussion see "The Measure of Poverty: Technical Paper IV, Bureau of Labor Statistics Family Budgets Program." (U.S. Department of Health, Education, and Welfare, 1977).

[9] This discussion of shortcomings in drawn from "The Measure of Poverty: Technical Paper IV, Bureau of Labor Statistics Family Budgets Program." (U.S. Department of Health, Education, and Welfare, 1977).

terns that the BLS recognizes and assumes may very well be due to differences in income levels (that is, the ability to afford certain items). If this is the case, then use of this measure of cost-of-living differences might tend to exacerbate or reinforce poverty by directing funds (through formula allocations and differentiated eligibility guidelines) away from those areas where lack of income is more of a limit on consumption. On the other hand, if regional differences in consumption patterns can be taken as surrogates for area differences in perceptions of poverty, and, if a more subjective definition of poverty is desired, use of the BLS index might be more appropriate.

Other shortcomings include: (1) The BLS index, as developed in its family budgets program does not cost out the implicit quasi-market basket represented by the poverty standards; (2) no estimates of statistical reliability can be assigned to the interarea index; and (3) the index, which is computed for a limited number of areas in the country, has no estimates for whole States and other geographic divisions.

Inflation indexing of the poverty standards

The Federal poverty standards are adjusted over time to take into account changes in the overall Consumer Price Index. The inflation adjustments used in annually updating the poverty standards directly determine the poverty standards, and the relationship between price changes and changes in income determines the number of persons counted in poverty.

There are several measures of price changes. If an alternative measure of price changes had been used to adjust the poverty standards, it would have had an important effect on the poverty standards in use today. This is especially important because the version of the Consumer Price Index that is generally used to adjust the poverty standards has recently been revised to one that will use a new method of estimating shelter-cost changes. Rather than using only "homeownership" costs, rental costs will assume a substantial role in the measurement of the overall price changes used to update the poverty standards.[10] If this revised index of price changes had been applied in the past, the current poverty standards would be substantially lower since they largely differ from the original Orshansky thresholds because of Consumer-Price-Index-measured inflation adjustments. For example, using an experimental index similar to the new index to be used in future poverty standard inflation adjustments,[11] and applying it beginning in 1967 (the earliest year for which it is available), would produce a 1982 four-person poverty threshold of $8,970, or 91 percent of the current threshold of $9,862.

The future effects of the recent switchover to a more rental-cost weighted version of the Consumer Price Index, as compared to con-

[10] The rationale for using an index with a greater role for rental costs in updating poverty standards stems from the judgment that rental-cost differences are more pertinent to a poverty standard than homeownership cost differences (more poor people rent than own). The switchover to a rental-cost version of the Consumer Price Index was accomplished earlier in certain programs using the OMB poverty guidelines.

[11] The so-called Consumer Price Index "X1".

tinued use of the older version, are uncertain and depend on relative homeownership/rental cost changes.

Issues Related to Use of the Poverty Definitions

Accounting period

Under the existing Federal poverty definitions, an individual, family, or household is counted as poor or made eligible for assistance if its cash income is below a threshold level. However, since people's incomes vary over time, the accounting period, or the time period over which income is measured (either in counting the poor or judging eligibility), can be as critical as the threshold income levels themselves.

Longer accounting periods decrease the number of persons failing to meet a poverty threshold measure, while shorter accounting periods increase their numbers. At present, the Census Bureau uses an annual accounting period in counting the poor. Individual and family annual incomes are tested against annual poverty thresholds. Federally supported programs using the OMB guidelines or a variant of them tend to use either a monthly accounting period (current income or income in the prior month) or an annual accounting period. An illustration of the difference that accounting periods can make in the number of persons classified as poor according to the Federal poverty thresholds can be found in a recent survey of food stamp program participants. Using the food stamp program's monthly accounting period definition of poverty, some 88 percent of recipient households were found to have gross cash incomes below the monthly version of the OMB poverty guidelines; for roughly the same time period, the Census Bureau's annual accounting period definition found only 65 percent with income below Federal poverty standards.[12]

Different accounting periods also affect the types of people counted as poor or judged eligible for assistance. Longer accounting periods tend to include as poor a greater proportion of population groups with smaller variances in income—for example, nonwhites, the aged, families with heads not in the labor force, and female-headed families. Shorter accounting periods increase the proportion of population groups likely to have significant income variations, primarily those with attachment to the labor force.

Both of these effects of the accounting period used in administering the Federal poverty standards have important policy implications. But, most importantly, the choice of an accounting period determines, to a large extent, the type of poverty population counted and served by various assistance programs. This sensitivity to accounting periods also raises the question of whether the present-day version of the Orshansky poverty thresholds should be used to judge poverty by something other than the annual income they were originally created to test.

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[12] Some of the difference may be because the food stamp program rules tend to judge poverty by whether a household's (residential unit's) income falls below the appropriate threshold, while the Census Bureau looks at individuals and families.

Treatment of assets

The present Census Bureau definition of poverty does not consider assets in judging poverty status, although by using an annual accounting period it treats income as an accumulation of wealth available over the year to meet consumption needs. Assistance programs using the OMB poverty guidelines often have a separate assets test for eligibility. However, cash income derived from assets is considered, both in counting the poor and determining program eligibility.

Inclusion of assets in judging poverty would decrease the number of those counted as poor and change their characteristics, as long as the poverty thresholds remain unrevised [13]—just as lengthening the accounting period does. Use of an assets test in assistance programs limits the number of recipients and affects which population groups would receive aid. However, the basic issues to be confronted in questioning whether assets should be considered, more so than by counting any actual income realized from them, is the method to be used in counting them and the effect counting them has on the types of persons counted as poor or served by assistance programs.

At present, assistance programs tend to take assets into account by placing an arbitrary dollar limit on allowable liquid assets, excluding assets such as a home. The Census Bureau ignores even liquid assets. Both treatments have an effect on the population counted or served as poor. For example, those population groups more likely to have assets such as a home (for example, rural residents and the elderly) are more likely to fall within a poverty definition that excludes real property such as a home. A simple dollar limit on liquid assets also skews the poverty population served by assistance programs toward those likely to have real property or other nonliquid assets. However, alternative methods of taking assets into account have their own problems. It has been suggested that one means might be to impute income value to assets. But, given the variety of assets, the form of such an imputation is bound to be controversial and, unless specifically varied by asset type, as inequitable as the present system.

Households, families, and individuals

At present, the Census Bureau poverty definition counts poor families and unrelated individuals (age 14 or over), not households (residential or consumption units). Traditional and legal bonds argue for this, and although the bonds may be weaker, unrelated households can often enjoy most of the benefits of the economies of scale enjoyed by familes. Using households as the unit for counting the poor would mean comparing aggregate household income to the appropriate poverty threshold.[14] It would produce a noticeable decrease in the number of persons counted as poor, primarily, unrelated individuals.

Assistance programs using the OMB poverty guidelines, or a variant of them, use differing units when judging income eligibil-

[13] The present poverty thresholds have no explicit recognition of assets.

[14] It might also imply revising the poverty thresholds to take into account, if possible, the food consumption habits of households, rather than families.

ity. In some cases it is the family (for example, the national school lunch program); in other cases it is a variant of a household definition (for example, the food stamp program). In effect, there is an attempt to use that unit which most appropriately fits the purposes of the program that is, the family upon which the child depends in the national school lunch program, or the unit that purchases and prepares food together in the food stamp program.

Whether it is more equitable to use a household unit or families and individuals is dependent on the economic relationship among household members. However, establishing that relationship can prove very difficult and, without establishing it, use of either a household or family-individual definition is, in effect, an arbitrary choice based on custom or, perhaps, the purposes of the particular program.

Aftertax and pretax incomes

As originally designed, the Orshansky poverty thresholds were based on the average proportion of aftertax income spent on food, as shown in the 1955 food consumption survey [33 percent]. However, in counting the poor, the Census Bureau has always counted their pretax gross income against the poverty thresholds. In effect, it appears the assumption has been that the poor pay few if any taxes. But, more importantly, the information needed to produce aftertax income estimates for the poor is simply not regularly available in the Census Bureau's surveys.

The Federal poverty standard is a consumption standard and the degree to which taxes reduce disposable income affects a family's ability to afford the quasi-market basket represented by the poverty standard. The poor do pay taxes. The degree to which they pay is extremely variable since so many receive nontaxable income in the form of public assistance, social security payments, retirement or disability income, and so forth, and others have incomes that can vary widely over the year. As a result, it is questionable precisely to what extent a switchover to an aftertax measure of income would have on affecting the count of the poverty population.

Use of aftertax income in measuring poverty would increase the number of poor counted by the Census Bureau, if the needed data were available. Moreover, it would increase the proportion of earners in the poverty population and the proportion of those living in more highly taxed areas of the country. In effect, it would change the character of the poverty population. But, barring a willingness to use a standardized discount for taxes when judging income or revising the poverty thresholds upward to pretax thresholds,[15] the anomaly of counting pretax income against aftertax thresholds is likely to remain as long as the necessary data are not regularly available.

Assistance programs using the OMB poverty guidelines treat taxes in a number of ways. In some cases they count gross pretax income, in others they either explicitly deduct taxes or a standardized amount attributed to taxes and other work expenses. The basic

[15] If the same methodology used to create the existing thresholds is used (that is, the proportion of income spent on food is determinant of the multiplier used to set a poverty threshold).

determinant in whether to take taxes into account in assistance programs, however, is not the aftertax nature of the standard being used, but the degree to which the program aims at encouraging work by not penalizing those who work (and pay taxes) with a loss of benefits.

In-kind income

When the poverty standards are used to count the poor or determine eligibility, in-kind income that might serve to reduce the need to use cash income to purchase the market basket implicit in the Federal poverty standards is not counted. This clearly biases the "income" counted for poverty purposes downward in a world in which many benefits, both in the public and private sectors, are provided "in kind"—for example, through food stamps, medicaid, free school lunches in the public sector, and, through fringe benefits such as health insurance in the private sector.[16] Although the issue seems clear, the solution is difficult.

There are two basic problems that need to be addressed in attempting to adjust the current Federal poverty definitions to take in-kind income into account. It is very difficult to make a judgment of the *value* of any noncash income to be counted in judging poverty. Moreover, counting noncash income against the existing poverty thresholds raises the question of whether the thresholds themselves need to be revised, probably upward, to account for the availability of in-kind income to the population as a whole.

Measurement of Poverty Under Alternative Definitions

Any measure of income poverty requires definitions of: (1) poverty thresholds; and (2) income concepts. As discussed earlier, poverty thresholds are either absolute or relative. An absolute threshold is a given amount below which an economic unit, such as a household, family, or person, is defined as poor. The official poverty threshold is absolute. It assigns absolute annual income poverty levels that vary with family size, age, number of children under 18 years old, and inflation. A relative threshold generally defines poverty below a given percentage of some standard, such as median or mean income. The income concept can include or exclude taxes, cash transfers, and in-kind transfers. The official poverty income thresholds include cash transfers, but exlude taxes and in-kind transfers.

Poverty thresholds

Critics of the official, absolute poverty thresholds note that they do not increase with real income. Consequently, poverty will decline as general economic growth proceeds, but the incomes of the poor will decline relative to the nonpoor. These critics would instead define the poverty thresholds as a certain percent below a social standard, such as 50 percent of the median income. This threshold would grow at the same rate as real income. General eco-

[16] For further discussion, see "The Measure of Poverty: Technical Paper VII, In-Kind Income and the Measurement of Poverty" (U.S. Department of Health, Education and Welfare, 1976). In-kind government benefits, for example, far outstrip cash assistance today, but were minimal if not nonexistent when the poverty standards were created.

nomic growth would not, therefore, change poverty. Poverty would decrease only if the distribution of income changed so that fewer economic units were counted below the social standard.

Advocates of the absolute poverty threshold counterargue that general economic growth should reduce poverty because: (1) Poverty has absolute aspects to it, such as hunger and illness, which will decline as real income increases; (2) individuals often compare their current incomes to their past incomes rather than to the incomes of others; and (3) gains in real income reduce the number of unmet needs. In addition, individual age-income profiles are relatively low during youth and old age, but high during middle age. A relative threshold would tend to count too many young and old people as poor because of where they are in their life cycles.

Income concepts

Poverty analysts have used for basic income concepts:

1. *Pretransfer income* includes only income derived from market sources and excludes government transfers.
2. *Prewelfare income* includes market income and government cash social insurance transfers, but excludes cash welfare transfers.
3. *Posttransfer income* includes market income, cash social insurance transfers, and cash welfare transfers. The official poverty thresholds use this concept.
4. *Adjusted income* includes market income, cash social insurance transfers, cash welfare transfers, in-kind transfers, adjustments for taxes, and corrections for underreporting of income in the data used for poverty analysis.

Advocates of the *pretransfer income* concept argue that it yields a good estimate of the effect of private markets on poverty. They assert that it gives a good indication of the number of individuals needing training, job placement, and other services. Opponents contend that *pretransfer poverty* is artifically high because transfer programs discourage work and break up families, leading analysts to count some otherwise nonpoor persons as poor.

Critics of *pretransfer poverty income* prefer *prewelfare income* for poverty analysis. They argue that analysts should include cash social insurance transfers in the definition of market income because the recipients regard them as earned rights or deferred compensation. Advocates of *pretransfer income* reply that some of the cash social insurance transfers are not deferred compensation, but transfers from one group to another. For example, the social security old age program transfers income between generations and between workers and nonworkers; Unemployment insurance transfers income from the steadily employed to the frequently unemployed.

Posttransfer income might provide the most accurate measure of the anti-poverty effect of private market and government if it included the effects of taxes, the cash value of in-kind transfers, and underreporting of income. Most analysts prefer *adjusted income,* however, which allows for underreporting of income in the data used to analyze poverty, and includes the effect of taxes and the estimated cash value of in-kind transfers.

The calculation of *adjusted income* is controversial. Although analysts generally agree on how to adjust for the effects of income

underreporting and taxes, their approaches to assigning a cash value to in-kind transfers vary greatly. If data were available on how much each individual valued in-kind benefits, analysts would not need to estimate it. Since these data do not exist, analysts must estimate the cash value of in-kind benefits based largely upon their own value judgments.

Poverty analysts have usually compared the in-kind transfers to the lowest amount of cash transfer an individual recipient would accept in exchange. Because a cash transfer affords the recipient with the additional freedom to spend the transfer on anything, poverty analysts have generally believed that the cash value of an in-kind transfer is less than the market price of the goods and services purchased with the in-kind transfer. They have developed, therefore, various methods for reducing the *market* value of in-kind transfers to estimate a *cash equivalent value.*

Some analysts disagree with the view that the *market value* of in-kind transfers exceeds their *cash equivalent value.* They argue that analysts should compare the *market value* of in-kind transfers to earned cash income, not cash transfers. This would imply that the *cash equivalent value* might exceed the *market value* of in-kind transfers because earned cash income requires the recipient's work, time, and willingness to risk layoffs, disabling injuries, the effect of inflation on wages, rents, and interest, and the economic stress of bearing additional children. These analysts have not, however, developed methods to adjust for these factors. Instead, they use the market price of in-kind transfers without any adjustments, perhaps because they believe many of the adjustments cancel each other.

Finally, besides *market value* and *cash equivalent value,* some analysts have used the *poverty budget share value.* It limits the value of in-kind transfers, such as medical, food, or housing transfers, to the percent spent on these items by economic units near the poverty thresholds for a given year for which data are available. This approach assumes that the in-kind transfer has no value in determining poverty status when it exceeds the defined limits.

Poverty gap

The poverty gap is the amount of annual income required to increase all annual incomes of poor economic units up to their respective poverty thresholds. It varies with the definitions of poverty thresholds and income.

Trends in Alternative Measures of Poverty

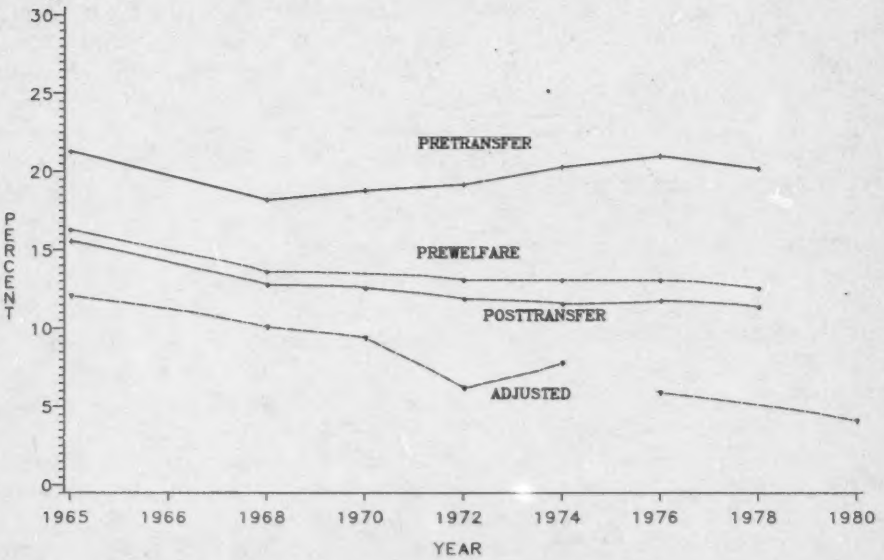
Absolute thresholds

Figure 1 shows some trends in the percent of persons in poverty from 1965 to 1980 that were presented by Danziger and Plotnick.[17] Whether the poverty rate has increased, decreased, or remained constant depends upon the definition of income. In general, from 1968 through 1978 the prewelfare and posttransfer poverty rates stayed relatively constant at 13 to 14 percent. The pretransfer pov-

[17] Sheldon Danziger and Robert Plotnick "The War on Income Poverty: Achievements and Failures," in Welfare Reform in America, ed. Paul M. Sommers (Boston, 1982), pp. 31–52.

erty rate increased, however, while the adjusted poverty rate declined dramatically.

FIGURE 1.—TRENDS IN THE INCIDENCE OF POVERTY AMONG PERSONS BY INCOME CONCEPT



SOURCE: SHELDON DANZIGER AND ROBERT PLOTNICK, "THE WAR ON INCOME POVERTY: ACHIEVEMENTS AND FAILURES," IN WELFARE REFORM IN AMERICA, ED. PAUL M. SOMMERS (BOSTON, 1982), P.40.

1. The pretransfer poverty rate in 1978 of 20 percent was nearly as high as it was in 1965 at 21 percent. There was a 3 percentage point drop between 1965 and 1968, but the rate rose back to 21 percent by 1976.

2. The prewelfare poverty dropped from 16 percent in 1965 to between 13 and 14 percent through 1978. There was little change in prewelfare poverty after 1968.

3. The posttransfer poverty rate, the official measure, dropped from 16 percent to 13 percent between 1965 and 1968, but declined only slightly thereafter. These rates may differ from the published official figures because the authors based them on households instead of families.

4. The adjusted poverty rate declined in every period except 1972 to 1974. Taxes had a minimal effect. Because health benefits are more than two-thirds of in-kind benefits, they account for a large proportion of this trend. One should not compare, however, the estimates for 1976 and 1980 to the earlier years. The 1976 and 1980 estimates were based on the market value of inkind transfers while the estimates for earlier years were based on cash equivalents. The 1976 and 1980 estimates would be 1 to 2 percentage points higher if they were based on cash equivalents.[18]

[18] Smeeding, Timothy M. "The Anti-Poverty Effect of In-Kind Transfers: A 'Good Idea Gone Too Far?' " Policy Studies Journal, Vol. 10, No. 3, March 1982, p. 210.

Relative thresholds

Danziger and Plotnick also estimated relative poverty rates for pretransfer, prewelfare, and posttransfer income concepts.[19] Relative pretransfer poverty increased in each period after 1968, except from 1976 to 1978, and was 1.6 percentage points higher in 1978 at 23.9 percent than in 1965. Prewelfare and posttransfer poverty rates stayed relatively constant at about 16 and 15 percent, respectively. They provided no estimates of relative adjusted poverty rates, but the dramatic growth of in-kind transfers in the 1970's would have reduced the relative adjusted poverty rate.

Poverty gap

Danziger and Plotnick did not present all of their estimates for the poverty gap.[20] Their estimates for 1978 ranged from the posttransfer or official poverty gap of $20.4 billion to the pretransfer figure of $62.7 billion.

Why did absolute pretransfer poverty stay relatively constant from 1968 to 1978?

Critics of income transfer programs argue that they discourage work and break up families, or discourage family formation. This could increase the absolute pretransfer poverty rate by lowering earned income and raising the number of female headed households, a group with relatively low incomes. Alternatively, the rate of economic growth may largely determine the rate of change in the absolute pretransfer poverty.

Danziger and Plotnick roughly simulated the work disincentive effect on the absolute pretransfer poverty rate in 1978. They found a minimal effect.[21] They found that demographic changes, however, added about 3 percentage points. They concluded that the absence of significant economic growth during the 1970's probably explained the lack of decline in the absolute pretransfer poverty rate after 1968.

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[19] Danziger and Plotnick, op. cit., p. 41.
[20] Ibid., pp. 41–42.
[21] Ibid., pp. 42–44.

Section 8. PRINCIPLES FOR JUDGING PROPOSALS TO REDUCE POVERTY

Several principles recur in discussions about the Federal "system" of programs to help the poor:

Is it fair?
Is it adequate?
Is it "target-efficient?"
Does it reduce work effort?
Does it promote family stability?
How much does it cost?

Fairness

Fairness requires that people in similar circumstances be treated similarly. This principle is called "horizontal equity." It is violated by some categorical eligibility rules and by interstate benefit differentials so wide that differences in standards or costs of living cannot justify them.

It is generally held that fairness also requires that persons who earn more should receive more total income than those who earn less. The principle that those who need more receive greater help is called "vertical equity."

Adequacy

Ideally, an income-tested transfer system, along with the employment and work-related benefit programs, should enable both those who can work and those who cannot work to have access to a level of income judged sufficient for basic needs.

The usual approach to judging adequacy is to compare the maximum benefits of a given program with the cost of a minimum basket of goods or services or an income standard such as the poverty threshold. But ultimately, the question of adequacy is a political judgment. It raises the issue: At what level of living is society as a whole willing to maintain its poorest members?

To make the matter more difficult, there is an inherent conflict under the existing system between adequacy and equity. The more "adequate" the benefit for some, the more unfair the system is to those who are barred from it. Ultimately, society might have to choose between providing "adequate" benefits to some poor persons, or lesser benefits to all.

Target Efficiency

A system of help for the poor should concentrate its benefits on needy persons, especially if funds are limited. It has been noted that work-related benefits such as social security transfer more total income to the poor than income-tested benefits. However,

most of their funds go to the nonpoor. Increasing social security benefits as an *anti-poverty measure,* although attractive to many, may not be as effective in lowering poverty as smaller spending in other programs confined to the needy. Of each extra dollar used to raise existing social security benefits, only about 10 cents would go to the poor. However, some contend that a program for the poor will always be a poor program because of the difficulty of developing political support for it. While increasing social security may be an inefficient means of reducing poverty, it may be the most effective political means.

The goal of focusing funds on the poor is made more difficult because it conflicts with the goal of preserving work incentives (see below).

To be efficient, administration of the system should be straightforward and relatively simple.

Work Incentives

A system of help for the poor should encourage self-sufficiency and reward work. Those who can, should work, and those who do should have higher disposable income (vertical equity principle) than those who do not. But if a program is to assure some "minimum" level of income, and simultaneously to reward work by a recipient, it must permit the recipient to retain some of the earnings that bring him above the "minimum" level. Thus, to preserve work incentives, some of a programs's benefits must be to the less needy.

The only way out of this dilemma is to divide people into "employables" and "nonemployables" and to assure a higher sum of income to the latter. But objective tests of employability are virtually impossible.

The more income-tested benefits that are available to a poor person, the harder it is to sustain financial work incentives. First, more benefits are likely to mean larger overall aid, reducing the prod of necessity. Second, an extra dollar of earnings can cause a reduction in each of the benefits, leaving disposable income little higher than before. The growth of noncash benefit programs since the late 1960's has intensified this problem.

Family Stability

A system of help for the poor should encourage two-parent families to stay together. At a minimum, many feel it should not reward families for splitting or individuals for not marrying by confining its help to one-parent families or those with an incapacitated second parent (as AFDC does in most States).

Cost

Any plan to help the poor will embody tradeoffs among the above principles. The cost of a plan to help the poor usually rises with increases in fairness, adequacy, work incentives, and expansion to two-parent families. All other things constant, target-efficiency can reduce cost, but target-efficient programs often have limited work incentives.

Section 9. SELECTED MAJOR PROPOSALS TO REDUCE POVERTY

Proposals To Reduce Poverty of Children

As this report has shown, the rate of poverty among children is high and growing. Incidence of poverty among children is 46 percent higher than among the total population. Out of every 100 persons who are poor after work-related and need-tested cash payments, almost 40 are children.

Children with the highest poverty rate are those living in female-headed families with an absent father (the basic AFDC target population). In 1982, 70.5 percent of such black children were poor; and 47.7 of such white children. Further, the Census Bureau has estimated that the rise from 1970 to 1980 in the proportion of households maintained by a female caused an additional 2 million families to be poor.

There is controversy about the impact of AFDC upon family composition. It is sometimes asserted that the program has induced some poor families to split so as to qualify for aid and that its offer of aid for fatherless families has encouraged such families. In guaranteed income experiments known as the Seattle-Denver Income Maintenance Experiments—SIME-DIME—family splitting was high (relative to that in control groups) among two-parent families who were guaranteed aid. However, in those experiments the parent who left the family remained eligible for a cash payment. In contrast, AFDC pays nothing to a parent outside the home.

The earned income tax credit (EITC) is the single Federal cash program available to two-parent families with children who are poor despite full-time work. Federal law bars such families from AFDC, and most States do not make use of an option permitting them to give AFDC to intact families of an "unemployed" worker, defined to include one who works no more than 99 hours a month.

Establish a national minimum AFDC benefit

Half the States pay maximum AFDC benefits that are below 50 percent of the poverty thresholds for 3- and 4-person families, and in more than 40 jurisdictions State guarantees are at least one-third below poverty thresholds.

Low benefit levels result not only in small welfare checks; they result also in low income eligibility cutoffs, making many poor families ineligible for aid. For example, a mother with two children is ineligible for AFDC if her counted income equals these maximum benefit levels: Texas, $117 monthly; Tennessee, $127; and Arkansas, $140. In these States the monthly gross income limits are respectively, $252, $268.50, and $351. These sums compare with the 1982 poverty threshold of $641 per month.

One proposal that would expand AFDC eligibility and increase benefit checks is to establish a national minimum income floor in AFDC. Over the years such proposals have been made.[1] Some would create a 100 percent federally funded income floor for children, like that of SSI for the aged, blind, and disabled. Others would require States to pay the specified floor, but would have the Federal Government share the cost. Some would retain the present AFDC funding formula. Under this formula, the Federal Government helps pay the cost of AFDC benefits, at a rate that is varied by State and ranges from 50 percent of total costs to 77.63 percent (with the highest Federal matching rate paid in States with the lowest per capita income).

The House has three times voted for a cash income floor for needy families with children: passage in 1970 and 1971 of President's Nixon's Family Assistance Plan (FAP) and passage in 1979 of an amended version of President Carter's Social Welfare Reform Amendments of 1979. The Senate has not approved the concept.

H.R. 1,[2] the 1971 version of FAP, would have provided a maximum of $2,400 yearly in Federal cash for a four-person family, equal to 60 percent of the 1970 poverty threshold. FAP would have repealed AFDC.

H.R. 4904, the 1979 bill, would have established an income floor for children at 65 percent of the poverty threshold, payable in AFDC and food stamps (with food stamps accounting for more than one-third of the guarantee). At the time of House passage, the 1979 bill would have required 13 States to increase their AFDC benefit levels.

However, if that bill were enacted today, establishing an AFDC-food stamp income floor at 65 percent of poverty, half the States would have to increase their AFDC benefits. As shown in table 1 below, combined AFDC-food stamp benefits of the median State have declined in constant dollars from 83 percent of the poverty threshold to 65 percent in the last dozen years.

TABLE 1.—COMBINED BENEFITS, AFDC FAMILY OF FOUR PERSONS WITH NO COUNTABLE INCOME: MEDIAN AFDC STATE

[July 1983 dollars]

	July 1971		July 1983	
	Dollars	Percent of 1970 poverty threshold	Dollars	Percent of 1982 poverty threshold
AFDC	556	68	368	45
Food stamps [1]	127	15	168	20

[1] The original security bill sent to Congress in 1935 required States that received matching grants for welfare to furnish sufficient aid to provide "a reasonable subsistence compatible with health and decency," but Congress rejected this provision, fearful that it might lead to Federal standards.

[2] SSI was created when Congress passed another title of H.R. 1. The SSI title established a Federal cash income floor for aged, blind, or disabled individuals at $1,560, 80 percent of the 1971 poverty threshold for an aged person. (Before the program got underway in 1974, Congress lifted the floor to $1,680.)

TABLE 1.—COMBINED BENEFITS, AFDC FAMILY OF FOUR PERSONS WITH NO COUNTABLE INCOME: MEDIAN AFDC STATE—Continued

[July 1983 dollars]

	July 1971		July 1983	
	Dollars	Percent of 1970 poverty threshold	Dollars	Percent of 1982 poverty threshold
Total	683	83	536	65

[1] Benefit calculation does not assume excessive shelter costs, which would result in extra food stamp benefits.

Table 1 shows that a destitute family of four in the median AFDC State received smaller real AFDC plus food stamps benefits in 1983, than it had received 12 years before from AFDC *alone* ($536, compared with $556, in constant 1983 dollars). Maximum food stamp benefits remained virtually constant in real dollars over the dozen years, but maximum AFDC benefits dropped one-third. Some of the AFDC decline was offset by extra food stamps.

The issue of a federally prescribed AFDC minimum income floor for children is controversial. The proposal arouses concern on grounds of cost [3] (to States and/or the Federal Government, depending on [illegible]rms) and expansion of welfare rolls. Some opponents object [illegible] loss of State control over basic AFDC benefit levels, ma[illegible]that State and local governments are better able to d[illegible]de policy and should retain this responsibility. Also, some fe[illegible]a more liberal welfare system might reduce work effort. A[illegible]ove, a combined AFDC-food stamp benefit floor set at 6[illegible]of poverty would yield $536 today in tax-free, expense-free inc[illegible] ($368 in AFDC plus $168 in food stamps). This compa[illegible] to $534 in disposable income that might be earned from a full-t[illegible]ne minimum wage job (gross wages of $581 plus $32 EITC minus $39 in social security taxes and $40 in estimated bus fare). Higher work expenses would reduce the "net" below $534.

Proponents maintain that all needy children should be treated in the same way by the Federal Government at least up to some minimum income level; that the Federal Government should assert a basic responsibility for poor children, as it has for poor needy aged adults and for all needy blind and disabled persons. Many regard poverty as a national problem beyond the capacity of individual States to solve. Some maintain that the proposed benefit levels are so modest that they are unlikely to lure people out of jobs. Further, they say that the terms of the guarantee could be designed to minimize its exploitation by persons who could work but won't or don't.

[3] The Congressional Budget Office [CBO] estimated in autumn 1979 that the net Federal first year (fiscal year 1982) cost of the 1979 proposal (H.R. 4904) for a minimum AFDC-food stamp income floor, set at 65 percent of poverty, was $3.5 billion, of which $1 billion was fiscal relief to States and localities.

Permit AFDC recipients to supplement welfare with a portion of wages

As shown earlier (table 10, section 5), current AFDC law permits an AFDC parent to supplement the family's welfare check by a portion of net wages, but only for 4 months. Thereafter, every "net" dollar of wages is deducted from the AFDC grant. In most States the income floor for AFDC recipients has become the income ceiling of a working recipient, as well.

The AFDC income floors of all but one State are below the poverty threshold; those of half the States are below 50 percent of the poverty threshold. Even after addition of food stamps, combined maximum benefits are 35 percent below the poverty threshold in half the States (four-person families).

Under current law the only way for most AFDC recipients to escape poverty is to find a job that pays wages above the poverty threshold (preferably with employer funded health benefits) and then to leave AFDC. However, potential gross earnings from a full-time job at the minimum wage ($613, including the EITC) also are below the poverty threshold for all families larger than two persons. Indeed, a four-person family requires full-time work at $4.75 per hour, $1.40 above the Federal minimum wage, to reach the poverty threshold.

One proposal to increase the income of families dependent on subpoverty AFDC grants is to restore a work incentive bonus to the AFDC program by phasing out benefits of working recipients gradually as earnings increase. This can be accomplished by, deducting only a fraction of earnings from the AFDC check.

For a dozen years (July 1969–October 1981) the law offered AFDC recipients who went to work a reward: a disregard of the first $30 monthly earnings plus one-third of the rest. This rule was to insure that a welfare mother who went to work (as all AFDC mothers were expected to do when their youngest child reached his sixth birthday) would be better off financially than one who did not. The work incentive bonus, which was made available only to recipients, not applicants, made it more valuable to enroll in AFDC than before; but it also made it harder to work one's way off the rolls. Prior to 1969, if a mother got a job that netted her more cash than her State's AFDC need standard, she lost eligibility. Under the $30 and one-third work incentive rule, which was added to a provision already in law requiring disregard of reasonable work expenses, a recipient could not work her way off the program until gross earnings were far above the State payment standard (the amount from which countable earnings were subtracted, sometimes lower than the need standard). The exact eligibility cutoff depended on work expenses, but it often went as high as twice the need standard.

The high gross earnings limit was caused by the unlimited disregard of work expenses, not the $30 and one-third rule. By itself, the latter rule would have ended eligibility when gross earnings equaled 1½ times the payment standard plus $30.

In the Omnibus Budget Reconciliation Act of 1981, Congress limited the duration of the $30 and one-third work incentive bonus to the first 4 months of a job. It also put a cap on deductible child

care costs ($160 monthly per child) and enacted a standard deduction for other work expenses ($75).

Congress ended the $30 and one-third earnings disregard for workers after 4 months upon the recommendation of the Reagan administration.[4] The administration said it had failed to increase the proportion of AFDC mothers who worked, that it had enabled some working mothers with high earnings to continue to receive welfare, that it was unfair to poor working mothers not on welfare. Further, it objected to the concept of using AFDC as a supplement to wages, saying that AFDC should instead offer long-term aid only to those who couldn't work, and temporary help to the employable.

Proponents of a restored and permanent work incentive bonus maintain that many AFDC mothers require both earnings and a benefit check to escape poverty. They regard a gradual phaseout of benefits by a portion of earnings as a way to reward work while reducing dependence on welfare. They take the position that to reduce AFDC benefits by 100 percent of net earnings amounts to a 100 percent "tax" rate on earnings. They consider it axiomatic that the welfare recipient who works should be better off than one who doesn't.

Pending in the House are two measures that would restore a revised but permanent work incentive rule to AFDC: H.R. 2354 (introduced by Mr. Ford of Tennessee) and H.R. 1603 (introduced by Ms. Ferraro and Mr. Miller of California). Both measures also would repeal the gross income limit of Public Law 97-35 (150 percent of the State need standard).

In the case of single-parent AFDC families, H.R. 2354 would require States to disregard the following amounts of earnings: $50 plus 20 percent of gross earnings (up to $175) plus child care cost (up to $160 per child) plus one-third of remaining earnings.

The following example compares this proposal with current and previous law.

Assume a mother with two children in the median AFDC State. Her maximum AFDC benefit, paid at zero earnings, is $310. Assume she takes a job full time and has to pay $160 in child care. How much can she earn before she loses AFDC eligibility? [5]

She can earn $823 under H.R. 2354 before losing AFDC eligibility. Under current law, she can earn $525 (a lower amount if this exceeds 150 percent of the need standard). Under prior law, she could earn $1,049 ($947) if work expenses were equal to 20 (15) percent of grows earnings.

Mandate AFDC for unemployed parents (AFDC-UP)

The original Social Security Act permitted States to give AFDC only to needy children in one-parent homes, unless the second parent was incapacitated. Then, as now, most AFDC children lived in fatherless homes. For the first 25 years of the program, if a father lost his job and his family became needy, State AFDC programs were forbidden to help the family so long as he lived at

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[4] In his final budget, President Carter recommended that Congress put a ceiling on the AFDC child care deduction, adopt a standard deduction for other work expenses, and "adjust" the earnings disregard.

[5] Here are the formulas for determining gross earnings limits (where G equals gross earnings; PS equals payment standard, CC equals child care cost and X equals work expenses):

1. H.R. 2354 (reflects $10 minimum required for any payment):
   (most States) G=1.87 PS+43+1.25 CC.
   (high-benefit States) G=1.5 PS+210+CC.
2. Current law (reflects $10 minimum required for any payment): G=PS+215 but cannot exceed 1.5 Need Standard.
3. Law before 1981:
   G=1.5 PS+30+1.5X

home. In 1961, in an antirecession measure, the law was changed so that jobless fathers at home would not disqualify their families for welfare.[6] Since May of that year States have been permitted to give AFDC to needy children of unemployed parents.

At first the States defined "unemployment," and some included fathers who worked as much as 35 hours a week, but since 1971 Federal regulations have specified that an AFDC parent can work no more than 99 hours a month (23 a week) to be classified as unemployed.

However, most jurisdictions never have used the option to give AFDC cash benefits to the unemployed and partly employed. The number of AFDC-UP State programs in recent years has ranged from 23 (December 1982) to 29 (September 1979), and in September 1983 was 25. The States now participating contain about 68 percent of the Nation's total AFDC caseload, including all relatively high-benefit States except for Alaska and Washington.

One proposal to reduce poverty among children is to require all States to offer AFDC-UP. The proposal has a history dating back to at least 1969, when it was a component of the original FAP bill.

Another proposal that would expand eligibility for AFDC-UP is to eliminate the rule that recipients must have a minimum work history (6 or more quarters of work within a 13 calendar-quarter period ending within 1 year before application) or have been qualified for unemployment compensation in their State within 1 year before application. The proposal would help needy unemployed fathers who have had a weaker attachment to the labor force.

The number of families served by AFDC-UP has risen sharply in recent years and in April 1983 reached an all-time peak of 284,000, more than double the April 1979 enrollment of 124,000 families. Most of the States that remain outside the program offer relatively low benefits.[7] Expansion of AFDC eligibility has been resisted, at least in some of these States, because of added medicaid costs. As mentioned before, a family that is eligible for AFDC automatically is eligible for medicaid.

Offer higher Federal funding for AFDC

Under a matching formula in the Social Security Act,[8] about 55 percent of each AFDC benefit dollar is paid by the Federal Government and 45 percent is paid by the States, some of which require local governments to share the cost. The Federal share varies among States, ranging from a floor of 50 percent in 14 States to 77.63 percent in Mississippi, and it is inversely related to State per capita income, squared.

The formula provides a Federal share of 55 percent for a State with average per capita income, and it offers a minimum Federal

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[6] However, until 1976, receipt of Unemployment Insurance (UI) barred a jobless father from AFDC-UP. Now AFDC-UP is permitted to supplement UI.

[7] Jurisdictions not offering AFDC-UP in September 1983, according to the Department of Health and Human Services: Alabama, Alaska, Arizona, Arkansas, Florida, Georgia, Idaho, Indiana, Iowa, Kentucky, Louisiana, Maine, Montana, Nevada, New Hampshire, New Mexico, North Carolina, North Dakota, Oklahoma, Oregon, South Carolina, South Dakota, Tennessee, Texas, Utah, Virginia, Washington, Wyoming, Puerto Rico, and Virgin Islands.

[8] The reimbursement formula chosen by all States for AFDC benefits, as of July 1983, was the formula first enacted for medicaid payments but made available at the time for AFDC, too, if a State implemented medicaid. The previous AFDC matching formula set a limit ($32 in average monthly benefits) on payments eligible for reimbursement.

share of 50 percent, no matter how high a State's per capita income.

In addition to Mississippi, eight other States with lowest per capita income receive a Federal share above 70 percent: Alabama, Arkansas, Kentucky, Maine, South Carolina, Tennessee, Utah, and West Virginia. Of these States, all but Maine and Utah are in the bottom 12 States, ranked by size of AFDC benefits.

One way to seek to increase AFDC benefits would be to change the AFDC funding formula so as to provide extra Federal money for higher payments.

This could be done in a large number of ways.[9] Some examples are:

(1) The Federal Government could set a maximum matching rate for States making payments in a federally decided "target" range (this could be calculated as a percentage of poverty threshold, established at the national average level, or determined in some other way). The matching rate could be decreased for average payments that fell short of it.

(2) The Federal Government could virtually assure a desired minimum AFDC benefit floor by providing 90 percent funding for such payments, and then could reduce the matching rate for supplemental payments.

(3) The Federal Government could offer to help share in the cost of adjusting benefits annually for price inflation (a practice no State now follows). As seen earlier, AFDC benefit levels (in constant dollars) in the median State have declined sharply over the last dozen years.

The matching formula could provide that if a State increased its maximum benefits (State guarantees) to reflect the CPI rise in the previous year, Federal funds would pay 75 percent of the cost of the COLA.[10] Then a State could give recipients a $4 benefit increase by spending $1 in State funds.

Proposals to expand benefit levels expose the States to larger AFDC and medicaid caseloads. Because it is unclear how States might respond to these changes, cost estimates are difficult to make.

Expand the earned income tax credit [EITC]

EITC, as noted before, is the only Federal cash benefit available to fully empolyed workers who are supporting children. Its maximum credit and eligibility limit were last raised effective in 1979.

One proposal to reduce poverty among children is to increase the EITC above its current level of $500 and/or to provide future annual automatic adjustments in its value, based on the CPI change. These ideas are discussed in section 10.

Another proposal is to vary the EITC by family size. For example, H.R. 1603 would increase the EITC by $50 for each child under

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[9] For a full discussion of alternate formulas and objectives they serve, see "Analysis of Federal-State Cost-Sharing in the Aid to Families with Dependent Children Program." Congressional Research Report No. 82-62 EPW.

[10] The COLA cost could be defined as the amount by which average benefits exceeded the previous year's average, multiplied by the average number of recipients, provided the State had raised its guarantee in the first quarter of the year, and by no more than the CPI rise in the previous year.

6 years old. In addition, the bill would raise the income eligibility limit for EITC.

Establish a children's allowance

Of all poor families with children in 1981, 55.4 percent were headed by a person who worked some time during the year and 18.9 percent by a person who worked full time year round.

The economy pays wages according to one's productivity, not the number of his dependents. But poverty is a function of family size.

The cash welfare system, like the wage system, leaves many children of working parents in poverty. First, it has only one benefit open to all such children, the EITC, and its maximum value is $500 per year. Second, full-time working fathers in two-parent families are categorically ineligible for AFDC. Third, although full-time working mothers in single-parent families are potentially eligible for AFDC, the gross income limits for AFDC in 35 jurisdictions, as seen earlier, are below the poverty thresholds (three-person families).

One proposal to reduce the poverty income gap of working as well as nonworking families with children is to establish a children's allowance.

The basic concept of a children's allowance is to provide a uniform payment to all children, regardless of income, and then to "tax" back the allowance, through the Federal income tax, from higher income families. Some variants, however, restrict payments to children after the first born. Most plans present the children's allowance as a supplement to AFDC, not a replacement.

Like all cash income transfers, a children's allowance would reduce the need to work somewhat, with the extent depending upon its generosity. But unlike income-tested aid, a children's allowance does not penalize those who earn more by cutting their benefits. Thus, it minimizes work disincentives.

Examples of proposals for children's allowance proposals are:

(1) Set the allowance equal to the current personal exemption in the income tax code, roughly $80 monthly, and eliminate the exemption.

(2) Set the allowance equal to a specified percentage of the estimated poverty threshold for an average child (100 percent of the threshold is more than $200 monthly per capita for a three-person family). If set high, the allowance could replace existing benefit programs.

(3) Convert the $1,000 personal exemption in the income tax code, which now provides an allowance for dependents that rises in value with one's tax bracket and which has zero value to one without taxable income, into a *refundable* tax credit. The value of the refundable credit could be set at an amount to reflect the marginal tax bracket of a family with average taxable income or some other level. This would give every tax-filer, those who owed taxes and those who did not, the same benefit per child.

Children's allowances, depending on their terms, tend to distribute income from small families to large, and from higher income families to lower ones. Cost estimates depend on the specifics of a proposal. Mollie Orshansky of the Social Security Administration reported in 1968 that the net cost of specified proposals ranged

from $28.5 billion for the most generous (paying $50 a month for every single child) to about $4 billion for the most stringent ($25 monthly starting with the third child).[11]

Using a finding by Orshansky that it would be possible to recoup about 30 percent of the initial benefits by making children's allowances taxable, Martha N. Ozawa estimated in 1982 that the 1979 net cost of a program that paid $100 monthly to each child [12] and wiped out AFDC and social security's child benefits would have been $52.1 billion.[13] In July 1983 dollars the net cost of the 1979 program would have been $70.8 billion, and the allowance would have been $136 monthly per child.

Reserve job slots in public programs for AFDC recipients

One proposal to reduce poverty among children is to reserve some job slots in any future public job programs for mothers of needy children. Another is to increase funding for the work incentive [WIN] program, which serves AFDC parents.

Strengthen child support enforcement

In March 1982, 8.4 million women lived with a child under 21 years old whose father was absent from the home. Of these women, 2.6 million, or 31 percent, had 1981 cash incomes below the poverty threshold. Most of the poor mothers raising children alone are presumed to have been among the 2.3 million single female heads of families with children who received cash payments that year from the program of aid to families with dependent children [AFDC].[14]

Since 1975, when the Federal-State child support enforcement program began, AFDC recipients and applicants have been required to assign child support rights to their State as a condition of eligibility. The program seeks to locate absent fathers, establish paternity, and enforce child support collections. Services to collect child support and establish paternity are available to non-AFDC mothers and children as well as to those enrolled in AFDC.

In its seventh annual report to Congress, the Office of Child Support Enforcement said that during fiscal year 1982 the program collected almost $1.8 billion in child support payments from absent parents, of which more than $787 million was on behalf of AFDC children and the rest for nonwelfare children. The child support payments made on behalf of AFDC children are paid to the State for distribution rather than directly to the family. If the child support collection is insufficient to make the family ineligible for AFDC, the family receives its full AFDC grant and the child support is distributed to reimburse the State and Federal Government in proportion to their assistance to the family. If the recipient's income, including child support payment, exceeds the State's payment standard, the recipient's AFDC benefits are terminated. Only

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[11] Orshansky, Mollie. "The Shape of Poverty in 1966." Social Security Bulletin. Vol. 31, No. 3, March 1968. p. 25.

[12] Average AFDC benefits in May 1983 were $105 per recipient.

[13] Ozawa, Martha N., "Income Maintenance and Work Incentives. Toward a Synthesis." New York. Praeger Publishers. 1982. p. 226.

[14] Currently, in 32 States the AFDC gross eligibility limit for a family of three is less than the poverty threshold; this means that a poor person with dependent children is not necessarily eligible for AFDC. Note also that the 2.3 million figure is from a forthcoming CRS report on sources of income and employment status of recipients of AFDC.

the money paid for families *not* on AFDC may go directly to the family.

Three types of proposals regarding child support have been made to increase incomes of mothers raising children alone: (1) Establish child support rights for a larger proportion of such mothers, (2) increase collection of child support obligations, and (3) increase size of child support payments.

1. Establish child support rights for a larger proportion of mothers raising children alone.—Of the nonpoor female-headed families with children, 68 percent had been awarded child support orders or had an agreement to receive child support payments. However, of the poor female-headed families with children, only 40 percent had established such rights. And in 1981, only 31 percent (806,000) of these women were due payments. The other 8 percent had agreements but were not due payments in 1981 because the father had died, the children had grown past the age of eligibility, or other reasons. Thus, 1.8 million poor mothers with children were not due child support payments in 1981.

If child support payments are to significantly reduce U.S. poverty. It appears necessary to increase the proportion of poor mothers and children with enforceable child support rights. It is unclear why the majority of poor mothers and children lack such rights. But more vigorous efforts are needed both to determine paternity and to obtain court or administrative awards of child support.

The establishment of child support payments among poor mothers in 1981 varied widely by marital status, race, age, education, and number of children. This was regardless of whether or not payments were actually made. The following categories of women were less likely to be awarded payments: Never-married and separated, black, aged 18 to 29 and 40 and over; women with less than 12 years of formal education, and women with only one child or with 3 more children.

2. Increase collections of child support obligations.—The Census Bureau has calculated the amount of child support that poor mothers would have received if the full amounts owed had been paid to them. Census data indicate that if the 806,000 women with child support rights had received full payments in 1981, 109,000 (more than one-eighth) of them would have been lifted above the poverty threshold. This would have reduced the number of poor mothers raising children alone by 4 percent.

Although child support payments generally are low, the 4 million women who were legally owed child support in 1981 [15] received an average sum of $1,512, including payments of zero made to some. If the full amount owed had been paid to all, the average amount would have been $2,457. Child support payments to a woman who is not on welfare can be an important supplement to earnings and other income. When the payments are not made, some mothers cannot meet their family's needs and must resort to government assistance.

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[15] 5 million women (59 percent) were awarded child support rights, but 1 million were not legally supposed to receive payments because the father had died, the children were above the eligibility age or another such reason.

One proposal aimed at increasing child support obligations would require the Internal Revenue Service to collect past due child support obligations on behalf of non-AFDC children, as it already does for AFDC children, by withholding such amounts from the Federal income tax refunds. In fiscal year 1982 (for tax year 1981), the Federal income tax refund offset program collected over $168 million on behalf of AFDC families.

Another proposal would be mandatory wage withholding for parents with child support obligations. The amounts withheld for parbe paid to the State or other designated public entity which would then forward the amounts to the custodial parent and children.

3. Increase size of child support payments.—It is generally agreed that child support amounts awarded by courts are low compared to the actual cost of raising a child. Some observers favor automatic adjustment of child support awards for price inflation at regular intervals.

Under the current system, mothers must return to court to seek increases in child support, in many cases a lengthy and costly process. Further, many child support enforcement agencies will not seek increases in child support awards on the basis of inflation alone.

Although annual increases in child support awards would help child support payments keep up with inflation, it is unlikely that indexing child support awards to the Consumer Price Index [CPI] would significantly reduce on the number of persons below the poverty threshold because the poverty theshold is also indexed to the CPI.

One proposal aimed at increasing the size as well as equity of child support payments would require States to establish uniform guidelines, based on the absent parent's ability to pay.

Proposals To Reduce Poverty of the Aged

In 1982, for the first time, the incidence of poverty among aged persons—not in an institution—dropped below the poverty rate for all persons. Last year, out of every 1,000 aged persons, 146 were poor. In the total population, the poverty rate was 150 persons per 1,000.

Back in 1959, the first year with comparable census data, the incidence of poverty among the aged [35.2 percent] was 57 percent higher than among the total population [22.4].

Despite the overall reduction in poverty among those aged at least 65, poverty rates for some aged groups remain high: Persons aged at least 75, 18.1 percent; unrelated aged individuals, 27.1 percent; black aged, 38.2 percent.

Raise the Federal SSI benefit floor

The minimum income floor of SSI now equals 79 percent of the 1982 poverty threshold for an aged, blind, or disabled individual, but 94 percent of the poverty threshold for such a couple.

One proposal to end poverty in this group is to raise the Federal floor to 100 percent of the threshold. For individuals, this would require a benefit increase of $81.80 per month, or 26 percent; for couples, an increase of $30.60, or 7 percent.

As noted before, because of State supplementary payments, SSI guarantees exceed poverty thresholds for individuals in 7 States [16] and for couples in 20 jurisdictions.[17]

Disregard a fraction of social security benefits in computing SSI benefits

Since its beginning, SSI has disregarded $20 monthly in social security (or other income). The result is to raise the Federal minimum income floor for dual recipients of social security and SSI by $20, from $304.30 per individual (last half of 1983) to $324.30.

For instance, in July 1983, the average social security benefit paid to more than 100,000 disabled widows and widowers was $241.31. If these persons had no other income, and if their counted assets were within the SSI limit of $1,500, they could receive a payment from SSI. Their SSI benefit would be $82.99 ($324.30 minus $241.31), and higher if they lived in a State that provides SSI supplements. Their total benefit income ($324.30) would exceed by only $20 the amount that an equally poor widow without social security entitlement would receive. Some persons have questioned whether this is sufficient reward for earning social security coverage.

One proposal (A) to reduce poverty among persons with low social security benefits is to disregard a fraction of social security benefits. Then the disregard would rise whenever benefits are increased. An alternate proposal (B) is to adjust the disregard for price inflation when benefits are adjusted.

The effect of these proposals can be shown on one of the disabled widows earlier cited. Assume that she qualifies for SSI in a State without supplementation. Her SSI benefit now is $82.99. On January 1, 1984, both social security and SSI benefits are to rise by 3.5 percent (the delayed 1983 COLA). The results, under current law and the two proposals:

	January 1984		
	Current law	Proposal A (20 percent disregard)	Proposal B (indexed disregard)
SSI guarantee	$314	$314	$314
Social security	249	249	249
Minus disregarded social security	−20	−50	−21
SSI payment	85	115	86
Total benefits	334	364	335

Offer Federal matching funds for State SSI supplements

As shown earlier (figure 11, section 5) in July 1983, 26 States plus the District of Columbia offered SSI supplements for aged per-

[16] Alaska, Connecticut, California, Massachusetts, Wisconsin, Nebraska, and Idaho.

[17] The seven in the footnote above, plus Colorado, Oklahoma, Rhode Island, Vermont, New York, Nevada, Minnesota, Pennsylvania, Wyoming, Illinois, Michigan, Washington, and the District of Columbia.

sons living independently. Peak supplements were $242 in Alaska, $156.70 in California, and an estimated $166.30 in Connecticut. These payments raised SSI guarantees above the 1982 poverty threshold for an aged person by 41 percent, 22 percent, and 19 percent, respectively. In four other States supplements lifted guarantee levels above poverty.

However, 24 States offered no supplementation to basic Federal benefits for aged persons living alone. Their minimum income floor was $304.30, $82 below the poverty threshold.

One proposal to reduce poverty among the aged, blind, and disabled is to offer Federal matching funds for supplements, up to the poverty threshold. A 50-percent match could be offered, in which case a State could add $1 to a beneficiary's cash income by spending 50 cents of its own. If it were desired to assure the beneficiary a combined cash-food stamp increase of $1 from a State outlay of 50 cents, the Federal matching rate would have to be 65 percent. This is because each extra SSI dollar would cause a 30-cent decline in food stamps. In order for the recipient to retain $1 in combined extra benefits, the SSI payment would have to go up about $1.43 (50 cents from the State, 93 cents from the Federal Government).

Pay nonreduced social security benefits to surviving spouses

The profiles of social security beneficiaries who are poor show a disproportionately highpoverty rate among aged nonmarried individuals. Although 9 percent of aged couples have income below the poverty line, 30 percent of aged single individuals live below that standard. Most single aged individuals are widows and widowers; consequently, it has sometimes been suggested that surviving spouse's benefits under social security should be increased in order to alleviate poverty among this group.

One way to increase the income of surviving spouses would be to eliminate the reduction imposed on benefits paid to a surviving spouse who is under age 65. Currently, a surviving spouse is entitled to a full benefit at age 65, but can choose to draw benefits as early as age 60 (age 50 if disabled). To take account of the increased number of years that these persons may receive payments by becoming entitled to benefits before age 65, their benefits are reduced. The reduction factor for any aged surviving spouse is $^{19}/_{40}$ of 1 percent for each month of eligibility before age 65. The reduction factor for disabled surviving spouses between the ages of 50 and 60 is currently $^{43}/_{240}$ of 1 percent per month before age 60, and $^{19}/_{40}$ of 1 percent per month from age 60 to 65. The 1983 amendments mandate that, beginning in 1984, all disabled surviving spouses will receive the same rate—71.5 percent of the basic benefit.

Many surviving spouses under age 65, especially women, have limited earning capacity because of lack of skills, age, ill health, or other factors—hence, many rely in whole or in part on social security for support. Many lack other resources. For example, private pension benefits often are unavailable because their spouses were not covered under such plans or, if they were covered, the plan did not offer survivor's protection or the worker did not exercise the option to provide it.

To pay unreduced benefits to surviving spouses would be expensive ($4.7 billion in 1984–88 and 0.28 percent of taxable payroll in

the long run). One way to help offset this cost would be to lower the benefit for aged spouses (of living recipients) from one-half to one-third of the basic benefit. This reduction in the aged spouse's benefit has been proposed before by certain advisory groups, primarily as a means to provide equity between single and married individuals. Such a provision would save 0.18 percent of payroll in the long run.

Eliminating the benefit reduction for surviving spouses would treat them more favorably than both married and single workers. Widows and widowers already have an advantage over workers because they can get benefits at age 60 while workers have to wait until age 62, and the reduction for widows and widowers (19/40 of 1 percent per month) is smaller than for workers (5/9 of 1 percent per month before age 65). This disparity will be more pronounced in the next century, when the retirement age is to be raised in stages, ending in 2027. From then on, full retirement benefits will not be available until one's 67th birthday. Reduced retirement benefits still will be available at age 62, but at 70 percent of the full rate, compared to 80 percent today. However, benefits of surviving spouses are unaffected and will remain at the current rate of 71.5 percent of the basic benefit at age 60.

Focusing social security benefit increases in this way touches upon one of the most basic issues concerning the role of the social security program. Traditionally, social security has been espoused as a social insurance program in which benefits are paid as an earned right without regard to a test of need, and the level of benefits is related to the amount of an individual's covered earnings. Nevertheless, social security also contains elements, such as a weighted benefit formula that gives a better return on contributions to low-income workers, and dependent benefits available at no additional cost for workers with families. To set benefits according to a poverty standard, it can be argued, would tend to push social security more in the direction of a welfare program.

However, increasing benefits across-the-board to all surviving spouses under age 65 would not achieve this "welfare" goal efficiently, because most surviving spouses are not poor and some are, in fact, quite well-to-do. Many would maintain that it would be cheaper, and more equitable, to use need-based programs to apply aid in a tightly targeted way.

Proposals To Reduce Poverty of the Unemployed

Unemployment compensation (UC) provides temporary and partial wage replacement for involuntarily unemployed workers who have enough recent employment and earnings to qualify for benefits. Fewer than 2 of 5 unemployed persons presently receives UC. Those who do not receive UC may: (1) not have worked enough recently to qualify; (2) have been disqualified for various reasons such as unavailability for work; (3) not have worked in covered employment; or (4) have exhausted their benefits. An average of about 3.8 million persons received UC in August 1983.

Provide special assistance for the long-term unemployed

A "reachback" provision in the Federal supplemental compensation program to give additional benefits to persons who have run out of UC would help the long-term unemployed, but most of these individuals would have received UC in the last year. According to the 1983 data, a large percentage of such persons, perhaps 80 percent, would not fall into the official poverty category.

A more target-efficient approach would provide benefits to the long-term unemployed who have not received UC in the last year. About 40 percent of these individuals were poor in 1982. A special unemployment assistance program could be designed in which persons in this category who had substantial work in the last 3 years, for example, would be eligible.[18] One could also add a current family income test to target more of the benefits at the poor, but this could stigmatize the program by making it similar to welfare.

Reenact public service employment

One proposal to reduce poverty among the unemployed is to reenact a program of public service employment.

Although Congress terminated all public service employment under the Comprehensive Employment and Training Act (CETA) at the end of fiscal year 1981, the subsequent rise in unemployment rates prompted the House Education and Labor Committee in May 1983 to report legislation establishing a new job-creation program. The Community Renewal Employment Act (H.R. 1036) passed the House on September 21, 1983, and would authorize $3.5 billion in fiscal year 1984 for local units of government to hire long-term unemployed individuals for community improvement jobs.

Eligible individuals would be those unemployed 15 of the previous 20 weeks, with priority for those who have exhausted unemployment insurance benefits and for people in families where no other member is working full time. Eligible community improvement projects would include repair and rehabilitation of public facilities, public lands, and the provision of social services. At least 20 percent of the funds would be spent to hire unemployed youth enrolled in an education or training program, and no more than 25 percent of funds could be used for administrative costs. Funds would be allocated to local areas according to a three-part formula: number of unemployed people; number of unemployed people in excess of 6.5 percent; and number of unemployed people in excess of the national average.

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[18] Wayne Vroman, op. cit., noted that special unemployment assistance (SUA) program provided aid to those not covered by UC in the mid-1970's.

Section 10. FEDERAL TAX TREATMENT OF POOR PEOPLE [1]

Through the 1960's and 1970's Congress attempted, in several tax reduction bills, to eliminate the tax burden on families whose incomes were below the poverty line. The legislative history of the tax cut bills enacted in 1969, 1975, 1976, 1977, and 1978 indicates a congressional desire to increase the level of income at which a family begins to pay income tax (termed the tax threshold or, alternatively, the tax entry point) above the poverty level. Several tools have been used to achieve this goal: the personal exemption, the standard deduction (now termed the zero bracket amount) and the earned income tax credit.

In the past few years, however, these provisions have not kept pace with inflation, and as a result the income tax threshold has fallen well below the poverty line. This shortfall will continue to grow for some families even after indexing takes effect in 1985, since the earned income credit is not indexed.

Relationship Between Income Tax Threshold and Poverty Line in Recent Years

Table 1 shows the income tax threshold and the poverty line for a family of four for selected years between 1959 and 1984. In 1960, the tax threshold was 10.3 percent below the poverty line. As a result of the 1964 tax cuts, the gap between the two was cut to 6.9 percent by 1965. By 1969, inflation had increased the gap to 19.9 percent, and Congress responded by tax reductions in 1969 and 1971 which succeeded in eliminating the gap in 1972. The rapid inflation of 1973–74 caused the gap to reemerge, and in 1975 the tax cuts were so structured that the tax threshold was raised 21.7 percent above the poverty line. The earned income tax credit, enacted that year, was designed not only to remove poor people from the income tax rolls but also, through its refundable feature, to offset some of the impact of the social security payroll tax on their earnings. However, inflation since 1975 has brought the poverty level 11.5 percent above the tax threshold in 1982, and it is anticipated that by 1984 the gap will increase to 17.2 percent, the largest gap since 1969.

[1] Prepared by the staff of the Joint Committee on Taxation.

TABLE 1.—RELATIONSHIP BETWEEN INCOME TAX THRESHOLD AND POVERTY LEVEL FOR A FAMILY OF FOUR, 1959–1984

Year	Income tax threshold	Poverty level	Percentage gap between tax threshold and poverty level
1959	$2,667	$2,973	−10.3
1960	2,667	3,022	−11.7
1965	3,000	3,223	−6.9
1966	3,000	3,317	−9.6
1968	3,000	3,553	−15.6
1969	3,000	3,743	−19.9
1970	3,600	3,968	−9.3
1971	3,750	4,137	−9.4
1972	4,300	4,275	+0.6
1973	4,300	4,540	−5.3
1974	4,300	5,038	−14.6
1975	6,692	5,500	+21.7
1976	6,892	5,815	+18.5
1977	7,533	6,191	+22.0
1978	7,533	6,662	+13.1
1979	8,626	7,412	+16.4
1980	8,626	8,414	+2.5
1981	8,634	9,287	−7.0
1982	8,727	9,862	−11.5
1983	8,783	[1] 10,166	[1] −13.6
1984	8,783	[1] 10,613	[1] −17.2

Note: Tax thresholds assume full use of the earned income tax credit.

[1] Estimated.

Provisions of Law Affecting Tax Threshold

The provisions of the tax law that have affected the income tax threshold in recent years are displayed in table 2. These are the personal exemption and standard deduction (now the zero bracket amount), both of which have been in the law for many years, and the earned income credit (enacted in 1975). In addition, a general tax credit was in effect between 1975 and 1978 and had a significant impact on the tax entry point in those years.

TABLE 2.—INCOME TAX PROVISIONS RELEVANT TO TAX THRESHOLDS

Year	Personal exemption	Minimum standard deduction for joint returns (zero bracket amount)	Earned income credit	General tax credit
Pre-1964	$600	10% of income	N.A.	N.A.
1964–69	600	$200 plus $100 per exemption	N.A.	N.A.
1970	625	1,100	N.A.	N.A.
1971	675	1,050	N.A.	N.A.
1972–74	750	1,300	N.A.	N.A.
1975	750	1,900	$400, phased out between 4–8K of AGI.	$30 per exemption
1976	750	2,100	do	35 per exemption
1977–78	750	3,200	do	Do.
1979–84	1,000	3,400	$500, phased out between 6–10K of AGI.	N.A.
Post–1984	$1,000 adjusted for inflation	$3,400 adjusted for inflation	do	N.A.

N.A.—Not applicable in that year.

Personal exemption

The personal exemption, which is subtracted in determining taxable income, is the principal provision of the law that differentiates the tax burden by family size. Taxpayers each receive one personal exemption (one for a single return and two for a joint return), and an additional exemption is allowed for each dependent. Also, there are extra exemptions for the blind and for people age 65 or over. The exemption remained at $600 between 1948 and 1969, after which it was increased in stages to $750. The Revenue Act of 1978 increased the exemption further to $1,000. After 1984, it is scheduled to be indexed for inflation.

The present $1,000 exemption is much smaller, when adjusted for inflation, than was the $600 exemption in 1948: $600 in 1948 would now be worth $2,500. The exemption has not even kept pace with inflation since 1964: $600 in 1964 would be worth $2,000 today. As a result of the erosion of the real value of the exemption, the difference in tax burdens between large and small families has been gradually narrowing. As a result, the current gap between the tax entry point and the poverty line is especially large for large families.

Zero bracket amount (standard deduction)

The zero bracket amount (ZBA) originated as a standard deduction, designed to give taxpayers an alternative to itemizing their personal deductions. Prior to 1964, the standard deduction equaled 10 percent of adjusted gross income (subject to a maximum) and was subtracted by nonitemizers in determining taxable income. However, starting in 1964, Congress began to target the standard deduction toward lower-income taxpayers. That year, minimum standard deduction (also called the low-income allowance) was enacted and equaled $200 plus $100 for each personal exemption (i.e., $600 for a married couple with two children). In 1969, the minimum standard deduction was increased to $1,100 for 1970 and $1,050 for 1971. The 1971 and 1975 tax cuts increased the minimum standard deduction for joint returns to $1,300 and $1,900, respectively. Also, in 1975 the minimum standard deduction was established at a lower level for single returns ($1,600) than for joint returns ($1,900).

In 1977, the standard deduction was set at a flat amount for all taxpayers ($2,200 for single returns and $3,200 for joint returns), built into the tax schedules as a tax bracket with a zero rate and renamed the zero bracket amount. The current levels of the ZBA are $2,300 for single returns and $3,400 for joint returns ($1,700 for married persons filing separate returns) and were established in 1978, effective for 1979. Under the new system, the standard deduction is no longer deducted in determining taxable income, and instead all taxpayers pay a zero tax on the first $2,300 and $3,400 of their taxable income. Itemizers must subtract their zero bracket amount (ZBA) from their itemized deductions which, in effect, cancels out the benefit they receive from the zero bracket. After 1984, these amounts are scheduled to be indexed for inflation.

For a taxpayer not eligible for the earned income credit, the personal exemption and the zero bracket amount detemine the tax

entry point. Thus, for a single taxpayer, the tax entry point is $3,300 ($1,000 exemption plus $2,300 ZBA). For a married couple, it is $5,400 ($2,000 exemption plus $3,400 ZBA). For a married couple with two children which is not eligible for the earned income credit, the tax entry point is $7,400 ($4,000 exemption plus $3,400 ZBA).

Earned income tax credit

The earned income tax credit was enacted in 1975 as a way of targeting tax relief to working low-income taxpayers with children, providing relief from the payroll tax for these taxpayers, and improving work incentives. It is subtracted from tax liability. Unlike other tax credits, the earned income credit is refunded to the taxpayer to the extent it exceeds tax liability (i.e., it is a refundable credit). As originally enacted, the credit equaled 10 percent of the first $4,000 of earned income (a maximum credit of $400) and was phased out as income grew from $4,000 to $8,000. In 1978, the maximum credit was increased to $500 (10 percent of the first $5,000 of earned income), and the phaseout was raised to between $6,000 and $10,000 of income. A system of advance payments also was enacted in that year; under that provision eligible individuals may receive the credit with their paychecks rather than waiting until a tax refund is received after the end of the year. The credit is available only to persons with dependents. Unlike the personal exemption and the zero bracket amount, the dollar amount in the earned income credit are not scheduled to be indexed for inflation after 1984. The tax thresholds computed in table 1 include the impact of the earned income credit for the years after 1974 Thus, for a four-person family for 1983, the tax entry point ($8,783) is the income level at which the tax before credits exactly equals the allowable earned income credit.

General tax credit

Between 1975 and 1978 Congress adopted a temporary general tax credit as an additional means of providing tax relief to lower-income persons. As enacted in 1975, the credit was $30 for each personal exemption. In 1977, it was increased to the greater of $35 per exemption or 2 percent of the first $9,000 of taxable income. The 1978 tax reduction eliminated the general tax credit, replacing it with an increase in the personal exemption. Unlike the earned income credit, the general tax credit was not refundable.

Amount of Tax Paid at Poverty Level

Table 3 shows the income tax threshold and the poverty level for various family sizes for 1978 and the years 1982 through 1984. Poverty levels for years after 1982 are based on assumptions about the rate of inflation in those years.

In 1978, the poverty level exceeded the income tax threshold only for single persons, and the maximum income tax paid by a poor single person was only $16. For three- and four-person families at the poverty line, the earned income credit offset a substantial part of the payroll tax.

In 1983, the income tax threshold exceeds the poverty level only for three-person families. For four-person families the shortfall of the tax threshold below the poverty level is $1,383, and for six-person families it is $3,901. In 1984, prior to the commencement of indexing, the tax threshold will be approximately equal to the poverty line for a three-person family but will be $1,830 below it for a four-person family, and $4,500 below it for a six-person family. Even after indexing takes effect, the gap between the tax threshold and the poverty line will grow faster than the rate of inflation for these families. This will happen because a taxpayer at the tax threshold is still eligible for the earned income credit and will be affected by the failure to index that credit.

Table 3 also shows the amount of income tax and payroll tax that is paid by someone whose income equals the poverty line and whose income is fully subject to tax. While many poor people do receive cash transfer payments that are tax-exempt and, therefore, would not be subject to the tax burdens shown in table 3, there are many poor people who must rely on their earnings and for whom these tax burdens can result under present law. By 1984, a four-person family whose income is at the poverty line can pay as much as $365 in income tax, and a six-person family as much as $570. The table also shows the payroll taxes paid by an earner whose earnings are at the poverty line. In 1975, Congress has hoped to eliminate some of this burden by the refundable earned income credit, but since then inflation has raised tax liabilities and the poverty level so that the credit, which does not apply to families with incomes above $10,000, does not give any benefit to a significant number of poor families. The table also shows the combined income and payroll tax burden at the poverty line as a percent of income. Note that this can be as high as 11 percent of income.

TABLE 3.—TAX THRESHOLDS, POVERTY LEVELS, AND FEDERAL TAX AMOUNTS FOR DIFFERENT FAMILY SIZES WITH EARNINGS EQUAL TO THE POVERTY LEVEL, 1978–1984

	Family size					
	1	2	3	4	5	6
Income tax threshold:						
1978	$3,200	$5,200	$6,930	$7,520	$8,183	$9,167
1982	3,300	5,400	8,237	8,727	9,216	9,706
1983–84	3,300	5,400	8,315	8,783	9,251	9,719
Poverty level:						
1978	3,311	4,249	5,201	6,662	7,880	8,891
1982	4,900	6,280	7,690	9,860	11,680	13,210
1983	5,052	6,475	7,928	10,166	12,042	13,620
1984	5,274	6,760	8,277	10,613	12,572	14,219
Income tax at poverty level:						
1978	16	0	−280	−134	−12	0
1982	202	106	−134	285	417	491
1983	206	118	−91	318	431	507
1984	226	150	−9	365	480	570
Payroll tax at poverty level:						
1978	200	257	315	403	477	538
1982	328	421	515	661	783	885
1983	338	434	531	681	807	913
1984	353	453	555	711	842	953
Combined income and payroll tax at poverty level:						
1978	216	257	35	269	465	538
1982	530	527	381	946	1,200	1,376
1983	544	552	440	999	1,238	1,420
1984	579	603	546	1,076	1,322	1,523
Combined tax as percent of income at poverty level:						
1978	6.5	6.1	0.7	4.0	5.9	6.1
1982	10.8	8.4	5.0	9.6	10.3	10.4
1983	10.8	8.5	5.5	9.8	10.3	10.4
1984	11.0	8.9	6.6	10.1	10.5	10.7

Possible Changes To Alleviate Income Tax Burdens on the Poor

In terms of aggregate revenue loss per dollar of benefit to poor taxpayers, the two most cost-effective tools to reduce the tax burden of the poor are the earned income credit and the zero bracket amount. The earned income credit is phased out for incomes above $10,000 and, therefore, all of the benefits from increasing the credit go to people with incomes below the phaseout. The credit is not now available to single persons or couples without dependents and, therefore, does not raise the tax entry point for these taxpayers. Furthermore, the amount of the credit does not change as the number of dependents increases; therefore, it is not a

very good tool, as presently structured, to raise the tax entry point for very large families. There have been suggestions to vary the earned income credit by family size. These have been criticized on the grounds that they would make the credit more of a welfare program and less of a way of alleviating the burden of the payroll tax on poor people and less of a way of providing work incentives for low-income earners. In addition, such a proposal would present significant technical problems with respect to single parents who are maintaining a household.

In 1981, the version of the tax cut bill reported by the Committee on Ways and Means would have increased the rate of the earned income credit from 10 percent to 11 percent, thereby raising the maximum credit from $500 to $550, and would have increased the phaseout range from between $6,000 and $10,000 to between $8,000 and $12,000. This proposal would involve a revenue loss of $0.7 billion per year and would raise the 1984 tax entry point to $9,472 for a three-person family, $9,938 for a four-person family and $10,844 for a six-person family.

Increasing the zero bracket amount is also a relatively cost-effective way of providing tax relief to poor people because the tax reduction does not go to the taxpayers who itemize their deductions. However, married couples receive the same ZBA regardless of their family size; and, therefore, it too is not a very good way of providing relief to the large families. Sizable increases in the ZBA would be needed to raise the income tax thresholds of single people and married couples up to the poverty level (a $2,000 increase for single people to $4,300 and a $1,400 increase for married couples to $4,800). The revenue loss from increases of this magnitude would be $16.6 billion per year.

Substantial increases in the personal exemption would be necessary to raise the tax threshold for large families up to the poverty level for them. The difference between the poverty lines for four- and five-person families is almost $2,000, and it is over $1,600 between five- and six-person families. Therefore, a personal exemption of around $1,800 would be needed to provide the difference in tax entry points between four-, five-, and six-person families that would correspond to their respective poverty lines. An increase of this magnitude would involve a revenue loss of $33.8 billion a year.

It would be possible to enact some or all of these increases in the earned income credit, ZBA or personal exemption and pay for them by raising tax rates. Alternatively, they could be paid for by expanding the tax base.

Appendix A.—Poverty Rates by Region and State

State/Region	Poverty rate		
	1969 [1]	1975 [2]	1979 [3]
Northeast	10.1	8.9	11.2
Connecticut	7.2	6.7	8.0
Maine	13.6	12.0	13.0
Massachusetts	8.6	7.1	9.6
New Hampshire	9.1	7.9	8.5
New Jersey	8.1	8.1	9.5
New York	11.1	9.4	13.4
Pennsylvania	10.6	9.7	10.5
Rhode Island	11.0	8.7	10.3
Vermont	12.1	13.5	12.0
North Central	10.8	9.4	10.5
Illinois	10.2	10.5	11.0
Indiana	9.7	8.1	9.7
Iowa	11.6	7.9	10.1
Kansas	12.7	8.0	10.1
Michigan	9.4	9.1	10.4
Minnesota	10.7	8.3	9.5
Missouri	14.7	12.0	12.2
Nebraska	13.1	9.6	10.7
North Dakota	15.7	10.6	12.6
Ohio	10.0	9.4	10.3
South Dakota	18.7	13.1	16.9
Wisconsin	9.8	7.7	8.7
South	20.3	15.3	15.4
Alabama	25.4	16.4	18.9
Arkansas	27.8	18.5	19.0
Delaware	10.9	8.2	11.8
District of Columbia	17.0	12.5	18.6
Florida	16.4	14.4	13.4
Georgia	20.7	18.0	16.6
Kentucky	22.9	17.7	17.6
Louisiana	26.3	19.3	18.6
Maryland	10.1	7.7	9.8
Mississippi	35.4	26.1	23.9
North Carolina	20.3	14.7	14.8
Oklahoma	18.8	13.8	13.4
South Carolina	23.9	17.2	16.6

APPENDIX A.—POVERTY RATES BY REGION AND STATE—CONTINUED

State/Region	Poverty rate		
	1969 [1]	1975 [2]	1979 [3]
Tennessee	21.8	15.8	16.4
Texas	18.8	15.2	14.7
Virginia	15.5	10.5	11.8
West Virginia	22.2	15.1	15.0
West	11.7	10.4	11.3
Alaska	12.6	6.7	10.7
Arizona	15.3	13.8	13.2
California	11.1	10.4	11.4
Colorado	12.3	9.1	10.1
Hawaii	9.3	7.9	9.9
Idaho	13.2	10.3	12.6
Montana	13.6	11.5	12.3
Nevada	9.1	8.8	8.7
New Mexico	22.8	19.3	17.6
Oregon	11.5	8.9	10.7
Utah	11.4	8.5	10.3
Washington	10.2	8.5	9.8
Wyoming	11.7	8.7	7.9
U.S. total/rate	13.7	11.4	12.4

[1] Source: U.S. Bureau of the Census, Statistical Abstract of the United States: 1979, table 764, p. 465 (100th edition.) Washington, D.C. 1979. 1969 estimates are from the 1970 census.

[2] Data are also from the 1979 Statistical Abstract of the United States, but estimates are from the Survey of Income and Education.

[3] Source: U.S. Bureau of the Census, Statistical Abstract of the United States: 1982–83, table 732, p. 443. (103d edition.) Washington, D.C., 1982. 1979 estimates are from the 1980 census.

APPENDIX B.—COMPARISON OF CENSUS THRESHOLDS, OMB GUIDELINES, AND BLS LOWER LEVEL BUDGET FOR AN URBAN FAMILY OF FOUR PERSONS OVER TIME

Base year	Census Bureau poverty threshold	CPI [1] (1967=100)	Poverty guidelines			BLS lower level budget [3]
			Year of use	OMB/CSA and predecessor of OEO	Secretary of Agriculture [2]	
1969	$3,743	109.8	1970	[4] $3,600	$3,720	[5] $6,544
1970	3,968	116.3	1971	4,000	3,940	[6] 6,960
1971	4,137	121.3	1972	4,200	4,110	7,214
1972	4,275	125.3	1973	4,300	4,250	7,386
1973	4,540	133.1	1974	4,550	4,510	8,181
1974	5,038	147.1	1975	[7] 5,050	5,010	9,198
1975	5,500	161.2	1976	5,500	5,700	9,588
1976	5,815	170.5	1977	5,850	6,090	10,041
1977	6,191	181.5	1978	6,200	6,490	11,481
1978	6,662	195.4	1979	6,600	7,150	11,546
1979	7,412	217.4	1980	7,450	8,200	12,585
1980	8,410	246.8	1981	8,450	([8])	14,044
1981	9,287	272.4	1982	9,300	([8])	15,323
1982	9,862	289.1	1983	9,900	([8])	([9])
Percent change 1969–82	+164	+164	([10])	+175		

[1] Data beginning in 1978 are for all urban consumers; earlier data are for urban wage earners and clerical workers.

[2] School year beginning with year of use.

[3] Cost in autumn of base year unless otherwise marked. The lower level budget was 1 of 3 (lower, intermediate, and higher level) hypothetical annual family budgets for an urban family of 4: a 38-year-old husband employed full time, a nonworking wife, a boy of 13, and a girl of 8. The family had average inventories of clothing, house furnishings, major durables, and other equipment for each budget level. The budgets represented the costs of 3 hypothetical lists of goods and services that were specified in the mid-1960's to portray 3 relative standards of living.

[4] For use in January–June 1971.

[5] Cost in spring of 1969.

[6] Cost in spring of 1970.

[7] First poverty guidelines issued by OMB, charged by Public Law 92–424 with defining the official poverty guideline and updating it annually for the change in the CPI.

[8] Public Law 97–35 provided that eligibility for free and reduced price school lunches be based on the OMB poverty guidelines rather than the Secretary of Agriculture's poverty guidelines. The Secretary of Agriculture no longer publishes poverty guidelines.

[9] The BLS lower level budget was last released in 1982 (based on autumn 1981 costs). The Labor Department eliminated the program after Congress passed the Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35). It said funds were not available to make the changes required to continue the program.

[10] For "year of use" 1970–1983.

APPENDIX C.—CHRONOLOGY OF SELECTED MAJOR FEDERAL PROGRAMS PROVIDING BENEFITS FOR NEEDY PERSONS

Year	Statute	Form of benefit	Program and/or beneficiaries
1818	3 Stat. 410	Cash pensions	*Revolutionary War veterans* "in need of assistance."
1890	26 Stat. L. 182	Cash pensions	*Civil War veterans* unable to earn a living by manual labor. Dependency Pension Act of 1890.
1918	40 Stat. 903	Cash pensions	Low-income *widows of Spanish-American war veterans.*
1921	42 Stat. 208	Food, clothing, other goods.	*Needy Indians.* Goods were provided from government warehouses and by purchase orders. Snyder Act.[1]
1930	P.L. 71–522	Cash pensions	*Disabled World War I veterans* who paid no Federal income tax the preceding year because of insufficient income.
1932	47 Stat. 61	Surplus wheat, cotton.	Government-owned wheat and cotton was given to the American Red Cross and other organizations *"for the needy and distressed people of the United States."*
1932	P.L. 72–302	Cash relief, work relief.	*Advances to States* (at 3 percent interest) out of future highway grant funds, made by the Reconstruction Finance Corporation for *cash relief and work relief,* and 3 percent RFC *loans to cities and counties* through States for "self liquidating" public projects.[2] Emergency Relief and Construction Act.
1933		Surplus food	Surplus pork, dairy products, wheat, flour and other items were distributed to the needy. Federal Surplus Relief Corporation.
1933	P.L. 73–2	Cash pensions	*World War I veterans* disabled for reasons not related to military service, with income below prescribed limits (higher income limits allowed for dependents).[3]
1933	48 Stat. 55	Cash relief, work relief.	Matching grants (25 percent Federal—75 percent State) to States for *emergency relief* (when State funds were judged insufficient, the matching requirement was waived). Federal Emergency Relief Act.[4]

APPENDIX C.—CHRONOLOGY OF SELECTED MAJOR FEDERAL PROGRAMS PROVIDING BENEFITS FOR NEEDY PERSONS—Continued

Year	Statute	Form of benefit	Program and/or beneficiaries
1934	P.L. 73–484	Cash pensions	*Widows of service-disabled World War I veterans,* plus dependent children, provided the widow paid no Federal income tax the preceding year because of insufficient income.
1935	Social Security Act.	Cash relief	Matching grants to States to enable them to aid: *needy aged* (Old-Age Assistance, Title 1), *needy children* (Aid to Dependent Children, Title 4), and *needy blind* (Aid to the Blind, Title 10). States were to decide "need" and the size of relief payments.
1935	P.L. 74–320	Surplus foods	*Needy families* and *school* lunch programs.
1935		"Security" wages	*Work relief for the unemployed,* provided by the Works Progress Administration (later called the Works Projects Administration).
1937	P.L. 75–412	Rental subsidies	Loans and grants to local public housing authorities to enable them to operate low-rent housing projects for *low-income families.* United States Housing Act of 1937.
1939		Surplus food	Food stamp program, ended in 1943. To receive *free stamps,* valid for surplus food, recipients first had to buy full-price stamps for other foods.
1944	42 Stat. 208	Cash relief	*Needy Indians* (and Eskimos and Aleuts).
1944	P.L. 78–312	Cash pensions	*Needy widows of World War II veterans.*
1944	P.L. 78–312	Cash pensions	*Needy World War II veterans* disabled by a cause not related to military service, and their dependents.[3]
1946	P.L. 79–396	School lunches	*Free or reduced price meals for children* determined by local school authorities to be unable to pay the full cost. National School Lunch Act.
1949	P.L. 81–171	Farm housing subsidies.	*Rural housing loans for low- and moderate-income families* (Sec. 502), rural housing repair loans for *very low-income families* (Sec. 504), farm labor housing loans (Sec. 514), and grants (Sec. 516); and rural housing loans (Sec. 515). Housing Act of 1949.
1950	P.L. 81–734	Cash relief	Matching grants to States to enable them to aid *needy disabled persons* (Aid to the Permanently and Totally Disabled, Title 14). States were to decide "need" and the size of relief payments. Social Security Amendments of 1950.

APPENDIX C.—CHRONOLOGY OF SELECTED MAJOR FEDERAL PROGRAMS PROVIDING BENEFITS FOR NEEDY PERSONS—Continued

Year	Statute	Form of benefit	Program and/or beneficiaries
1950	P.L. 81–734	Medical care	*Medical payments on behalf of recipients of ADC, OAA, AB and APTD* (by inclusion of such payments in the definition of "aid"). Social Security Amendments of 1950.
1950	P.L. 81–734	Cash relief	Matching grants to States to enable them to aid the *adult caretaker of a needy child enrolled in ADC.* Social Security Amendments of 1950.
1951	P.L. 82–28	Cash pensions	*Needy disabled veterans of the Korean Conflict* whose disability was not related to military service, and their *dependents and survivors.*[3]
1956	P.L. 84–880	Social services	Matching grants (50 percent Federal—50 percent State) for provision of "services" to *welfare recipients* to facilitiate their self-support and self-care. Social Security Amendments of 1956.
1958	P.L. 85–864	Loans	Three percent loans to *students* "in need" to pursue studies in institutions of higher education. National Defense Student Loans (later renamed national direct student loans).
1960	P.L. 86–778	Medical care	Matching grants to States for medical assistance to the *aged not enrolled in cash welfare* (Kerr-Mills program). Social Security Amendments of 1960.
1961	Excecutive Order No. 1 (President J. F. Kennedy).	Surplus food	Pilot food stamp program for *needy families.*
1961	P.L. 87–31	Cash relief	Matching grants to States to enable them to aid *needy children of unemployed parents.* Temporary one-year recession measure. Renewed in 1962 and made permanent, for families with dependent children of unemployed *fathers* (AFDC–UF), in 1967.
1962	P.L. 87–543	Social services	Federal matching rates for services to cash welfare recipients was increased from 50 percent to 75 percent. Public Welfare Amendments of 1962.
1962	P.L. 87–510	Cash relief and services.	*Needy Cuban nationals* granted asylum in the U.S. and registered with the Cuban Refugee Center. Migration and Refugee Assistance Act of 1962.

APPENDIX C.—CHRONOLOGY OF SELECTED MAJOR FEDERAL PROGRAMS PROVIDING BENEFITS FOR NEEDY PERSONS—Continued

Year	Statute	Form of benefit	Program and/or beneficiaries
1962	P.L. 88–129	Loans and scholarship grants.	Three-percent loans for *medical, dental, veterinary and other health profession students* "in need" and outright scholarship grants for those "in exceptional need."
1962	P.L. 87–583	Medical care	*Veterans* of any war with a *non-service-connected disability who were unable to pay for care.*[3]
1964	P.L. 88–581	Loans and scholarship grants.	Three-percent loans for *nursing* students "in need" and outright scholarship grants for those "in exceptional need."
1964	P.L. 88–525	Food stamps	Food Stamps for purchase by *low-income households* in participating counties. States set eligibility levels.
1964	P.L. 88–452	Preschool "developmental" care.	*Children in poor families* and those potentially eligible for cash welfare. Head Start. Child care program providing educational, medical, dental, nutritional, and social services. Economic Opportunity Act of 1964.
1964	P.L. 88–452	Legal services	*Poor persons* in need of legal aid. (In 1974 the Legal Services Corporation was created to give legal aid in noncriminal proceedings to low-income persons).
1965	P.L. 89–97	Medical care	Matching grants to States to enable them to provide free medical services to *cash welfare recipients and the medically indigent.* Medicaid. Social Security Amendments of 1965.
1965	P.L. 89–117	Rent subsidies	Rent supplement payments for *low-income individuals and families* who were elderly, handicapped, displaced by governmental action or national disaster.
1965	P.L. 89–329	Educational grants	Educational opportunity grants for *post-secondary students of "exceptional" financial need.* Renamed "supplemental educational opportunity grants" in 1972.
1965	P.L. 89–97	Social services	Extension of eligibility for social services to *"former and potential" recipients of welfare cash,* as defined by the Secretary of Health, Education, and Welfare. Social Security Amendments of 1965.
1965	P.L. 89–329	Student loans	Insured loans for *post-secondary students.* Interest-free for those in need.
1966	P.L. 89–642	School breakfasts	*Free or reduced price meals for children* determined by local school authorities to be unable to pay the full cost.

APPENDIX C.—CHRONOLOGY OF SELECTED MAJOR FEDERAL PROGRAMS PROVIDING BENEFITS FOR NEEDY PERSONS—Continued

Year	Statute	Form of benefit	Program and/or beneficiaries
1967	P.L. 90–77	Cash pensions	*Needy disabled veterans of the Vietnam War* whose disability was not connected with military service, and their dependents and survivors.[3]
1968	P.L. 90–448	Mortgage subsidies.	Home ownership assistance for *lower-income families* (Sec. 235). Housing and Urban Development Act of 1968.
1968	P.L. 90–448	Rental subsidies	Interest reduction payment for rental and cooperative housing for *lower-income families* (Sec. 236). Housing and Urban Development Act of 1968.
1970	P.L. 91–588	Cash pensions	*Needy veterans of the Mexican Border period* whose disability was not related to military service, and their *dependents and survivors.*[3]
1971	P.L. 91–671	Food stamps	Enactment of national eligibility standards and benefit schedules for the food stamp program.
1972	P.L. 92–318	Educational grants	Basic educational opportunity grants for *post-secondary students* whose "expected family contribution" for education is below the "actual cost of attendance" at the school.
1972	P.L. 92–603	Cash relief	Federal minimum income guarantee for the *needy aged, blind, and disabled,* with Federal eligibility rules and administration. Supplemental Security Income. Social Security Amendments of 1972.
1973	P.L. 93–86	Food stamps	Program extended to all counties and to the territories. Agriculture and Consumer Protection Act of 1973.
1974	P.L. 93–383	Rent subsidies	Rental "assistance payments" for "lower income" and "very low income" families, including in the terms "families" single persons at least 62 years old, and younger single persons who are disabled, handicapped, or displaced by government action or natural disaster. ("New" Section 8). Housing and Community Development Act of 1974.
1974	P.L. 93–644	Cash assistance	Assistance to meet energy costs for *low income individuals.*
1974	P.L. 93–647	Social services	Eligibility for social services extended to groups not fitting categories eligible for Federally-aided cash programs (Title 20). Federal income ceilings for eligibility. Social Services Amendments of 1974.

APPENDIX C.—CHRONOLOGY OF SELECTED MAJOR FEDERAL PROGRAMS PROVIDING BENEFITS FOR NEEDY PERSONS—Continued

Year	Statute	Form of benefit	Program and/or beneficiaries
1975	P.L. 94–12	Earned income tax credit.	Rebatable tax credit for *low-income workers with dependent children.* Maximum credit equaled 10 percent of the first $4,000 in annual wages (raised to 10 percent of the first $5,000 in wages, effective in 1979).
1975	P.L. 94–23	Cash relief and services.	*Needy refugees from Cambodia and Vietnam.* Indochina Migration and Refugee Assistance Act of 1975.
1976	P.L. 94–385	Weatherization materials, labor.	Assistance to meet weatherization costs of owned or rented dwelling of *low-income persons.*
1980	P.L. 96–422	Cash relief, social services.	Assistance to *needy refugees.* Refugee Act of 1980.

[1] Before passage of the Snyder Act, goods such as bacon, flour, cordwood, clothing were provided to some Indians in accordance with treaty commitments.

[2] Most of the State indebtedness later was cancelled. Josephine C. Brown. Public Relief: 1929–1939. New York, Henry Holt and Company (1940) p. 127.

[3] The Veterans Administration currently deems a veteran to be "disabled" when he reaches age 65.

[4] The Federal Emergency Relief Administration administered relief directly in 6 States between February 1934 and April 1935. Gilbert Y. Steiner. Social Insecurity: the Politics of Welfare. Chicago, Rand McNally and Company (1966) p. 5.

APPENDIX D.—WEIGHTED AVERAGE POVERTY THRESHOLDS FOR NONFARM FAMILIES OF SPECIFIED SIZE, 1959–82

Calendar year	Unrelated individuals			Families of 2 or more persons							
				2 persons							
	All ages	Under age 65	Aged 65 or older	All ages	Head under age 65	Head aged 65 or older	3 persons	4 persons	5 persons	6 persons	7 persons or more
1959	$1,467	$1,503	$1,397	$1,894	$1,952	$1,761	$2,324	$2,973	$3,506	$3,944	$4,849
1960	1,490	1,526	1,418	1,924	1,982	1,788	2,359	3,022	3,560	4,002	4,921
1961	1,506	1,545	1,433	1,942	2,005	1,808	2,383	3,054	3,597	4,041	4,967
1962	1,519	1,562	1,451	1,962	2,027	1,828	2,412	3,089	3,639	4,088	5,032
1963 (base year)	1,539	1,581	1,470	1,988	2,052	1,850	2,442	3,128	3,685	4,135	5,092
1964	1,558	1,601	1,488	2,015	2,079	1,875	2,413	3,169	3,732	4,193	5,156
1965	1,582	1,626	1,512	2,048	2,114	1,906	2,514	3,223	3,797	4,264	5,248
1966	1,635	1,685	1,565	2,115	2,185	1,970	2,600	3,335	3,930	4,410	5,430
1967	1,675	1,722	1,600	2,168	2,238	2,017	2,661	3,410	4,019	4,516	5,550
1968	1,748	1,797	1,667	2,262	2,333	2,102	2,774	3,553	4,188	4,706	5,789
1969	1,840	1,893	1,757	2,383	2,458	2,215	2,924	3,743	4,415	4,958	6,101
1970	1,954	2,010	1,861	2,525	2,604	2,348	3,099	3,968	4,680	5,260	6,468
1971	2,040	2,098	1,940	2,633	2,716	2,448	3,229	4,137	4,880	5,489	6,751
1972	2,109	2,168	2,005	2,724	2,808	2,530	3,339	4,275	5,044	5,673	6,983
1973	2,247	2,307	2,130	2,895	2,984	2,688	3,548	4,540	5,358	6,028	7,435
1974	2,495	2,562	2,364	3,211	3,312	2,982	3,936	5,038	5,950	6,699	8,253
1975	2,724	2,797	2,581	3,506	3,617	3,257	4,293	5,500	6,499	7,316	9,022
1976	2,884	2,959	2,730	3,711	3,826	3,445	4,540	5,815	6,876	7,760	9,588
1977	3,075	3,152	2,906	3,951	4,072	3,666	4,833	6,191	7,320	8,261	10,216
1978	3,311	3,392	3,127	4,249	4,383	3,944	5,201	6,662	7,880	8,891	11,002
1979	3,689	3,778	3,479	4,725	4,878	4,390	5,784	7,412	8,775	9,914	12,280

1980	4,190	4,290	3,949	5,363	5,537	4,983	6,565	8,414	9,966	11,269	[1] 12,761
1981	4,620	4,729	4,359	5,917	6,111	5,498	7,250	9,287	11,007	12,449	[1] 14,110
1982	4,901	5,019	4,626	6,281	6,487	5,836	7,693	9,862	11,684	13,207	[1] 15,036

[1] Poverty threshold for 7 persons, not 7 persons or more.

Source: Bureau of the Census and Social Security Administration